



*Comprehensive Annual  
Financial Report*

*Fiscal Year Ended June 30, 2007*



**CITY OF FRANKLIN, VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FISCAL YEAR ENDED JUNE 30, 2007**



CITY OF FRANKLIN, VIRGINIA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

TABLE OF CONTENTS

	PAGE
<b>INTRODUCTORY SECTION</b>	
Title Page	i
Table of Contents	iii-vi
Directory of Principal Officials	vii
Organizational Chart	ix
Letter of Transmittal	xi-xiv
<b>FINANCIAL SECTION</b>	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-12
<b><u>Basic Financial Statements:</u></b>	
<b>Government-wide Financial Statements:</b>	
Exhibit 1     Statement of Net Assets	17
Exhibit 2     Statement of Activities	18-19
<b>Fund Financial Statements:</b>	
Exhibit 3     Balance Sheet—Governmental Funds	23
Exhibit 4     Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	24
Exhibit 5     Statement of Revenues, Expenditures, and Changes in Fund Balances— Governmental Funds	25
Exhibit 6     Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	26
Exhibit 7     Statement of Net Assets—Proprietary Fund	27
Exhibit 8     Statement of Revenues, Expenses, and Changes in Fund Net Assets— Proprietary Fund	28
Exhibit 9     Statement of Cash Flows—Proprietary Funds	29
Exhibit 10    Statement of Fiduciary Net Assets	30
<b>Notes to Financial Statements</b>	<b>31-66</b>

CITY OF FRANKLIN, VIRGINIA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

TABLE OF CONTENTS (CONTINUED)

	PAGE
<b>FINANCIAL SECTION (CONTINUED)</b>	
<b><u>Required Supplementary Information:</u></b>	
Exhibit 11 Schedule of Revenues, Expenditures, and Changes in Fund Balances— Budget and Actual—General Fund	69
Exhibit 12 Schedule of Revenues, Expenditures, and Changes in Fund Balances— Budget and Actual—Virginia Public Assistance Fund	70
Exhibit 13 Schedule of Pension Funding Progress	71
<b><u>Other Supplementary Information:</u></b>	
<b>Primary Government:</b>	
Exhibit 14 Combining Balance Sheet—Nonmajor Governmental Funds	76
Exhibit 15 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Governmental Funds	77
Exhibit 16 Combining Balance Sheet—Nonmajor Special Revenue Funds	78-79
Exhibit 17 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Special Revenue Funds	80-81
Exhibit 18 Combining Balance Sheet—Nonmajor Permanent Funds	82
Exhibit 19 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Permanent Funds	83
Exhibit 20 Combining Statement of Fiduciary Net Assets—Agency Funds	84
Exhibit 21 Statement of Changes in Assets and Liabilities—Agency Funds	85
<b>Discretely Presented Component Unit—School Board:</b>	
Exhibit 22 Combining Balance Sheet	88
Exhibit 23 Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Governmental Funds—Discretely Presented Component Unit School Board	89
Exhibit 24 Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual—Discretely Presented Component Unit School Board	90-91

CITY OF FRANKLIN, VIRGINIA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

TABLE OF CONTENTS (CONTINUED)

	PAGE
<b>FINANCIAL SECTION (CONTINUED)</b>	
<b>Discretely Presented Component Unit—Industrial Development Authority:</b>	
Exhibit 25 Statement of Net Assets	95
Exhibit 26 Statement of Revenues, Expenses, and Changes in Net Assets	96
Exhibit 27 Statement of Cash Flows	97
<b>Supporting Schedules</b>	
Schedule 1 Schedule of Revenues—Budget and Actual—Governmental Funds	101-104
Schedule 2 Schedule of Expenditures—Budget and Actual—Governmental Funds	105-108
<b>STATISTICAL SECTION:</b>	
Table 1 Government-Wide Revenues	111
Table 2 Government-Wide Expenditures by Function	112
Table 3 General Governmental Revenues by Source	113
Table 4 General Governmental Expenditures by Function	114
Table 5 Property Tax Levies and Collections	115
Table 6 Assessed Value of Taxable Property	116
Table 7 Property Tax Rates	117
Table 8 Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt	118
Table 9 Ratio of Annual Debt Service Expenditures to Total General Governmental Expenditures	119
Table 10 Principal Taxpayers - Real Estate	120
Table 11 Principal Taxpayers - Personal Property	121
Table 12 Demographic Statistics	122
Table 13 Net Assets by Component	123
Table 14 Change in Net Assets	124-125
Table 15 Taxable Sales by Category	126
Table 16 Full-time Equivalent City Government Employees by Function/Program	127
Table 17 Operating Indicators by Function/Program	128

CITY OF FRANKLIN, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

TABLE OF CONTENTS (CONTINUED)

---

	<u>PAGE</u>
COMPLIANCE SECTION:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Peformed in Accordance with <i>Government Auditing Standards</i>	131-132
Report on Compliance with Requirements Appilcable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	133-134
Schedule of Expenditures of Federal Awards	135-136
Notes to Schedule of Expenditures of Federal Awards	137
Schedule of Findings and Questioned Costs	138



CITY OF FRANKLIN, VIRGINIA  
DIRECTORY OF PRINCIPAL OFFICIALS  
JUNE 30, 2007

Mayor

James P. Council, III

Vice Mayor

Raystine D. Johnson

Council Members

Mark S. Fetherolf  
Mary E. Hilliard  
Rosa M. Lawrence

Joseph J. Scislowicz  
Charles A. Wrenn

Constitutional Officer

Brenda B. Rickman

Commisisoner of Revenue

Franklin City Public Schools

Bill Scarboro  
William M. Pruett  
Eileen T. Ritter

Chairman of School Board  
Division Superintendent  
Director of Finance

City Administration

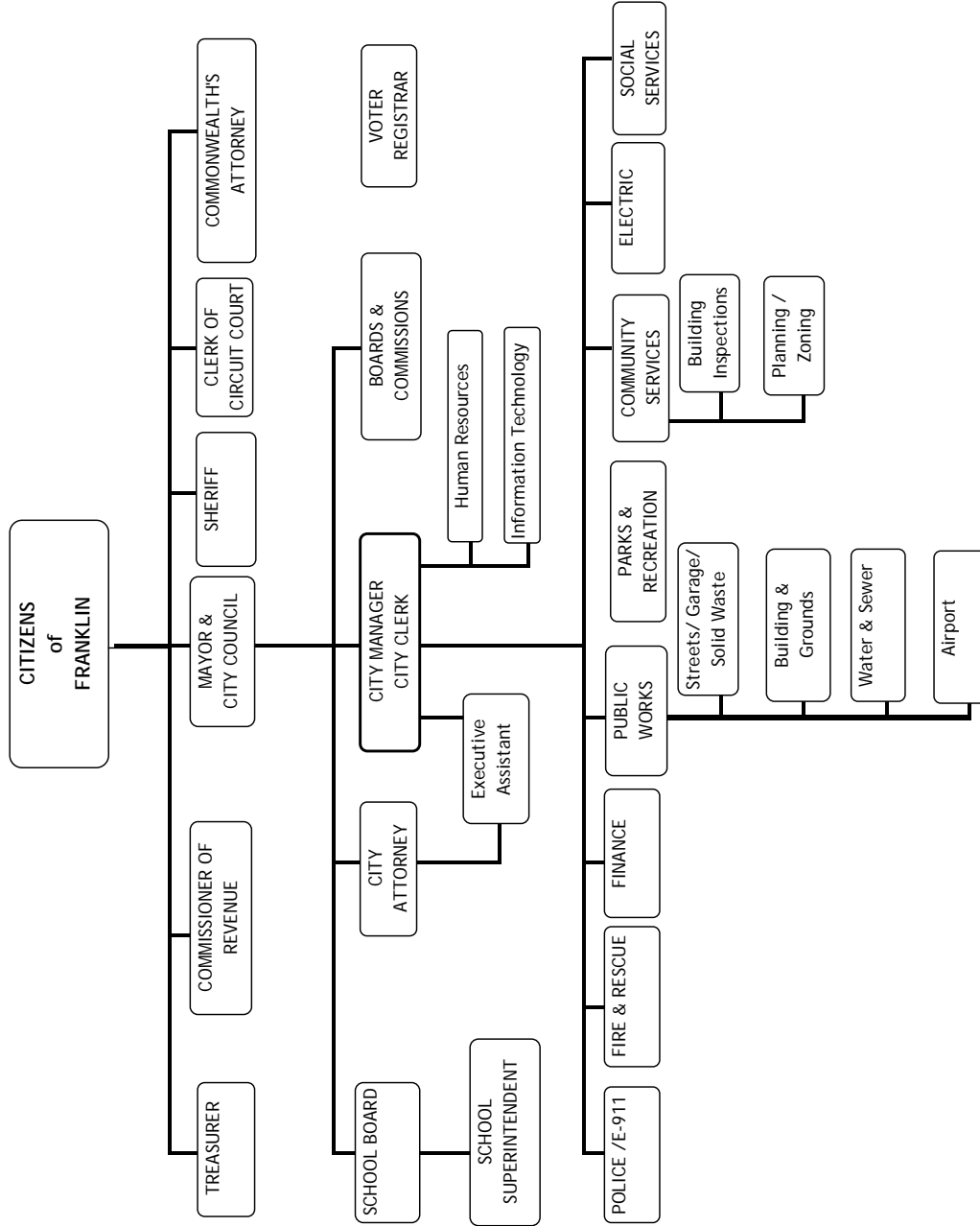
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Rowland L. Taylor  
Andrew L. Rose  
H. Taylor Williams, IV  
Phillip Hardison  
Dave A. Howe  
Frank A. Davis  
Sandra B. Holloman  
Vincent P. Holt  
Russell Pace  
H. Elizabeth Reavis  
Donald E. Goodwin

City Manager  
Director of Finance  
City Attorney  
Chief of Police  
Director of Public Utilities  
Director of Parks and Recreation  
Registrar  
Chief of Emergency Services  
Director of Public Works  
Director of Social Services  
Building/Planning/Zoning Officer



# CITY OF FRANKLIN, VIRGINIA ORGANIZATIONAL CHART







November 29, 2007

To the Honorable Members of City Council and  
Citizens of the City of Franklin:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of Franklin (the "City") for the fiscal year ended June 30, 2007. The report is required in accordance with Section 3.08 (c) of the Franklin City Charter and is prepared in accordance with the standards of financial reporting prescribed by the Governmental Accounting Standards Board (GASB), and the Auditor of Public Accounts of the Commonwealth of Virginia.

This report consists of management's representations concerning the finances of the City of Franklin. Consequently, management assumes full responsibility for both the accuracy of the data, the completeness and fairness of the presentation, and all disclosures. To provide a reasonable basis for making these representations, management of the City of Franklin has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Franklin's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Franklin's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement. As management, we assert that, to the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and the component units of the City of Franklin.

The City of Franklin's financial statements have been audited by Robinson, Farmer, Cox Associates, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Franklin for the fiscal year ended June 30, 2007, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Franklin's financial statements for the fiscal year ended June 30, 2007, are fairly presented in conformity with GAAP. The independent auditor's report is presented on page 1 of this report.

The independent audit of the financial statements of the City of Franklin was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies and a state compliance audit. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The Commonwealth of Virginia also has audit requirements on compliance with specific Commonwealth of Virginia laws, regulations, contracts, and grants. The compliance section of the report starts on page 131.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

### **Profile of the City of Franklin**

Franklin, which had been a part of Southampton County for many years, became an incorporated town in 1876 and an independent city on December 22<sup>nd</sup>. 1961. Subsequent annexations in 1986 & 1996 increased the population and land area of the City. The population today is approximately 8,500 and the land area is 8.75 square miles.

The City is located in the southeastern part of the state in the Hampton Roads area. The region is the 27th largest metropolitan statistical area in the country.

Franklin is organized under the Council - City Manager form of government. The Franklin City Council is comprised of seven members who are elected by the voters on a non-partisan basis and serve four year staggered terms. The City is divided into six precincts, with each precinct entitled to one representative. The City Mayor is elected at large for a two year term. Persons elected to City Council take office on the first day of July following the election.

The City Council is the policy determining body of the City. Its responsibilities include: adoption of the City budget; creation, combination or elimination of City departments; approval of all tax levies; approval of amendments, supplements or repeals to ordinances and the City Code; and appointment of the City Manager, City Clerk, City Attorney and various local boards, commissions and committees. The City Manager acts as Chief Executive and Administrative Officer of the City. The Manager serves at the pleasure of Council, carries out its policies, directs business procedures and has the power of appointment and removal of the heads of all departments (except Constitutional Officers, police chief and fire chief) as well as all other employees of the City.

Virginia state statutes put Virginia schools under the dual control of the State Education Board and a local school board. The State Education Board provides operational procedures, standards of education, and state school aid formulas for partial funding. The City must provide all capital improvement funds, pay debt on school projects, and provide any additional operating funds required but not provided by the State Education Board. The City Council's authority is limited to appointing local school board members and appropriating funds by state-established categories. Local school boards do not have taxing or bond issuance authority.

## Profile of the City of Franklin: (Continued)

The City of Franklin provides a full range of services, including police and fire protection; the maintenance of highways, streets, and other infrastructure; and recreational activities, library services, community development activities, and cultural events. The City owns and operates municipal electric company which provides electrical services to all of the City of Franklin and some of surrounding jurisdictions. The City also owns and operates water and sewage facilities; picks up trash, recycling, landscaping and bulky items; owns and operates a City pool; and manages various paid recreational activities. Franklin has and maintains a municipal airport located one mile east of Franklin in Isle of Wight County. In addition to general governing activities, the governing body has significant financial influence over the Schools and the Industrial Development Authority (IDA); both of which are reported separately within the City of Franklin's financial statements. Additional information on these two legally separate entities can be found in Note 1 in the notes to basic financial statements and in Exhibit 1 and 2.

The annual budget serves as the foundation for the City of Franklin's financial planning and control. All agencies and departments of the City of Franklin are required to submit requests for appropriation to the City Manager in March. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager presents a proposed budget to City Council for review in April. The Council is required to hold public hearings on the proposed budget and must adopt a final budget by no later than May 31. The appropriated budget is prepared by fund and department. Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments and additional appropriations require the special approval of City Council. The City also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbrances are included as budgetary expenditures and therefore do not lapse after year-end. The budget-to-actual comparison for the General Fund starts on page 69 of the report.

## Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Franklin operates.

**Local Economy.** The City of Franklin currently has a favorable economic environment and local indicators point to slow growth and continued stability.

The 2000 census population of 8,346 for the City of Franklin is an increase from 1990 census total of 7,864. This increase is primarily due to the 1996 annexation of the Hunterdale area.

Franklin's major industrial presence is International Paper (purchased Union Camp in 1999) which operates just across the City limits in Isle of Wight County. This company produces lumber, paper, pulp and chemical by-products. Other major industries include Hercules Inc. located in Southampton County, Franklin Equipment Co. located in Isle of Wight County, Birdsong Peanut Co.; Money Mailer, LLC, a direct-mail coupon distributor and Southampton Memorial Hospital which is the City's largest employer.

The City's largest source of revenue comes from the real estate tax rate. The City's tax rate of \$0.85 per \$100 of assessed value was decreased by \$0.10 for the fiscal year starting July 1, 2006, but the City has had increases in real estate tax revenue primarily due to increased assessments.

**Factors Affecting Financial Condition: (Continued)**

**Long-Term Financial Planning.** The City Council and City Management continue in their commitment to planning for future growth of the City of Franklin. A business incubator building was opened in the spring of 2005. Through an EDA grant and other sources, an old warehouse was renovated into space to house start-up businesses. In the upcoming year, the City has committed to jointly support with Southampton County and local foundations, a joint economic development authority. Franklin also developed Pretlow Industrial Park with industrial sites available off Pretlow Street adjacent to Rt. 58. Money-Mailer leased a building from the City in this park until the fall of 2006, and then the building was purchased by an investment firm for future planned expansion by Money-Mailer.


**Cash Management Policies and Practices.** The City uses a pooled cash concept to allow greater investment flexibility and, consequently, a better investment return. Cash from all funds, except that restricted for specific purposes or managed by fiscal agents, is pooled for investment purposes. All of the City's cash is deposited with the Director of Finance, who is responsible for investing all City funds. City cash is invested primarily in overnight repurchase agreements and certificates of deposit in Virginia Banks which are permissible under the Virginia Public Investment Act. The amount of interest earned during the year by the General Fund was \$47,192 compared to \$12,883 for previous year. At June 30, 2007, the various cash balances included cash on hand, investments, cash on deposit in banks, and restricted cash in the amount of \$3,354,702 for the Governmental Activities and \$2,967,096 for Business-type Activities, and \$13,830 for the Industrial Development Authority.

**Pension Benefits.** The City and Schools contribute to the Virginia Retirement System (VRS), an agent multiple-employer public retirement system that acts as a common investment and administrative agent for political subdivisions. For more information on the defined benefit retirement plan is contained in the notes to the basic financial statements.

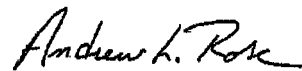
**Acknowledgements**

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department, the School Board Finance Department, and the Treasurer's Office, the Commissioner of the Revenue's Office and our Certified Public Accountants, Robinson, Farmer, Cox Associates. Due credit should also be given to City Council for their interest and support in planning and conducting the operations of the City of Franklin in a responsible and progressive manner.

Respectfully Submitted,



Rowland L. Taylor  
City Manager



Andrew L. Rose  
Director of Finance



# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditors' Report

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**To The Honorable Mayor and Members of the City Council  
City of Franklin  
City of Franklin, Virginia**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Franklin, Virginia, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Franklin, Virginia's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the School Cafeteria and School Textbook Funds of the School Board Component Unit which represent 13 and 4 percent, respectively, of the assets and revenues of the Component Unit School Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the School Cafeteria and School Textbook Funds, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Franklin, Virginia, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2007 on our consideration of the City of Franklin, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis and Budgetary Comparison Information, and Schedule of Pension Fund Progress as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Franklin, Virginia's, basic financial statements. The combining and individual nonmajor fund financial statements and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Franklin, Virginia. The combining and individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Robinson, Farmer, Cox Associates*

Charlottesville, Virginia  
November 28, 2007

## Management's Discussion and Analysis Fiscal Year July 1, 2006 - June 30, 2007

The management of the City of Franklin (the City's) provides this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2007. As readers, you are encouraged to read this discussion and analysis in conjunction with the transmittal letter and City's financial statements information included in this report.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Franklin exceeded its liabilities at the close of fiscal year 2007 by \$30,012,205 (net assets). Of this amount, \$5,699,905 represents unrestricted net assets which may be used to meet the City's ongoing obligations.
- The City's total net assets increased by \$919,881 from the prior year. This is a 3% increase from the previous fiscal year.
- The General Fund, on a current financial resources basis, reported an overage of revenues and other financing sources over expenditures and other financing uses of \$458,727 primarily due to unspent budgeted funds (details in Exhibit 11).
- The City's total outstanding general obligation debt at June 30, 2007 was \$20,831,648. This includes \$5,319,576 in business-activity debt, and \$15,512,072 in general government activities (\$7,558,477 School related debt and \$7,953,595 other general government debt (details in Note 8 - Notes to the Financial Statements).

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) *government-wide financial statements*, (2) *fund financial statements*, and (3) *notes to the financial statements*. This report also contains other supplementary information in addition to the basic financial statements.

#### Government-wide financial statements

*Government-wide financial statements* are designed to provide the readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all City assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information identifying how net assets changes during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some items of revenue and expenses are reported in this statement that will result in cash flows in future periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are mainly supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, sanitation, community development, public health, and cultural and recreation. The business-type activities of the City include Water and Sewer Utility, Electric Utility, and Airport Operations enterprise activities.

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

### Government-wide financial statements: (Continued)

The government-wide financial statements include not only the City itself (known as the primary government), but also the following legally separate component units for which the City is financially accountable: the City of Franklin Public Schools, and the City of Franklin Industrial Development Authority. Financial information for these component units is reported separately from the financial information presented for the primary government and can be found on Exhibits 1 and 2 of this report.

**Component Units** - The City's statements include two separate legal entities in its report - the Franklin City School Board and the City of Franklin - Industrial Development Authority. While legally separate, the City is financially accountable and provides operating and capital funding for these two component units.

### Fund Financial Statements

A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. In the Basic Financial Statements, the emphasis is on major funds. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental Funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because of the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. A reconciliation between the government-wide financial statements and the fund financial statements is included as part of the basic financial statements.

The City maintains 17 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General, Capital Projects and Debt Service funds. Data from the other governmental funds are combined into a single aggregate presentation. Individual funds data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The governmental funds financial statements can be found on Exhibits C and D of this report.

The City adopts an annual budget for its various funds. To demonstrate compliance with this budget, budgetary comparison statements have been provided in Exhibits 11 and 12 of this report.

**Proprietary Funds** - The City maintains proprietary funds for enterprise funds that report the same functions as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations, electrical fund operations, and airport operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information on each fund and can be found in Exhibits 7, 8 and 9 of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements: (Continued)

**Fiduciary Funds** - The fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's programs. The accounting for fiduciary funds is similar to the proprietary funds. The fiduciary fund statement can be found on Exhibit 10 of this report.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statement can be found after Exhibit 10 in this report.

**Other Information** - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary and other supplementary information concerning the City including financial information of the School Board component unit. Supplementary information can be found on pages 76-108 of this report.

Government-Wide Financial Statements Analysis

Over time, net assets may serve as a useful indicator of a government's financial position. At the close of the most recent fiscal year, the City's assets exceeded its liabilities by \$ 30,012,205.

Statement of Net Assets June 30, 2007						
	Governmental		Business-Type		Total	
	Activities		Activities			
	FY 2007	FY 2006	FY 2007	FY 2006	FY 2007	FY 2006
Current and other assets	\$ 7,686,077	\$ 7,405,211	\$ 3,710,699	\$ 4,646,772	\$ 11,396,776	\$ 12,051,983
Capital assets	31,387,184	32,327,245	13,786,481	14,282,285	45,173,665	46,609,530
Total assets	\$ 39,073,261	\$ 39,732,456	\$ 17,497,180	\$ 18,929,057	\$ 56,570,441	\$ 58,661,513
Current and other liabilities	\$ 3,980,357	\$ 2,982,641	\$ 1,792,724	\$ 2,287,121	\$ 5,773,081	\$ 5,269,762
Long-term liabilities	15,955,450	17,935,709	4,829,705	5,509,886	20,785,155	23,445,595
Total liabilities	\$ 19,935,807	\$ 20,918,350	\$ 6,622,429	\$ 7,797,007	\$ 26,558,236	\$ 28,715,357
Net assets:						
Invested in capital assets, net of related debt	\$ 15,949,140	\$ 15,587,446	\$ 8,363,160	\$ 8,276,928	\$ 24,312,300	\$ 23,864,374
Unrestricted net assets	3,188,314	3,226,660	2,511,591	2,855,122	5,699,905	6,081,782
Total Net assets	\$ 19,137,454	\$ 18,814,106	\$ 10,874,751	\$ 11,132,050	\$ 30,012,205	\$ 29,946,156

The largest portion of the City's net assets (\$24,312,300) represents its investment in capital assets (e.g. land, buildings and improvements, machinery and equipment), less any related debt used to acquire or construct those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The remaining net assets totaling \$5,699,905 represent unrestricted net assets, which may be used to meet the City's ongoing obligations.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements Analysis (Continued)

The following table indicates the changes in net assets for governmental and business- type activities:

	Change in Net Assets For the Fiscal Year Ended June 30, 2007					
	Governmental Activities		Business-Type Activities		Total	
	FY 2007	FY 2006	FY 2007	FY 2006	FY 2007	FY 2006
Revenues						
Program Revenues:						
Charges for Services	\$ 2,012,401	\$ 1,953,885	\$ 15,589,327	\$ 16,813,715	\$ 17,601,728	\$ 18,767,600
Operating grants & contributions	4,096,205	3,698,397	-	-	4,096,205	3,698,397
Capital grants & contributions	1,207,312	93,952	400,143	-	1,607,455	93,952
General Revenues:						
Real estate & property taxes	6,052,770	5,295,680	-	-	6,052,770	5,295,680
Other taxes	5,683,002	5,414,961	-	-	5,683,002	5,414,961
Revenue Sharing from Counties	1,175,879	1,136,199	-	-	1,175,879	1,136,199
Use of money & property	460,631	374,124	73,346	65,481	533,977	439,605
Grants & gifts - non-restricted	1,132,497	1,531,062	-	-	1,132,497	1,531,062
Miscellaneous	1,154,938	613,854	-	-	1,154,938	613,854
Total Revenues	\$ 22,975,635	\$ 20,112,114	\$ 16,062,816	\$ 16,879,196	\$ 39,038,451	\$ 36,991,310
Expenses						
General government	\$ 2,418,619	\$ 3,579,360	\$ -	\$ -	\$ 2,418,619	\$ 3,579,360
Judicial	276,708	220,786	-	-	276,708	220,786
Public safety	5,199,732	4,581,392	-	-	5,199,732	4,581,392
Public works	4,049,898	3,273,363	-	-	4,049,898	3,273,363
Health and welfare	2,328,871	2,476,948	-	-	2,328,871	2,476,948
Education	5,877,702	4,358,068	-	-	5,877,702	4,358,068
Parks, recreation, cultural	1,035,540	908,320	-	-	1,035,540	908,320
Community development	1,658,873	1,734,872	-	-	1,658,873	1,734,872
Interest & fees on long-term debt	879,419	761,876	-	-	879,419	761,876
Water & Sewer	-	-	2,931,072	2,895,536	2,931,072	2,895,536
Electric	-	-	10,833,758	10,704,954	10,833,758	10,704,954
Airport	-	-	628,378	571,601	628,378	571,601
Total Expenses	\$ 23,725,362	\$ 21,894,985	\$ 14,393,208	\$ 14,172,091	\$ 38,118,570	\$ 36,067,076
Excess of revenue over expenses	\$ (749,727)	\$ (1,782,871)	\$ 1,669,608	\$ 2,707,105	\$ 919,881	\$ 924,234
Transfers	1,926,907	2,100,872	(1,926,907)	(2,100,872)	-	-
Increase in net assets	\$ 1,177,180	\$ 318,001	\$ (257,299)	\$ 606,233	\$ 919,881	\$ 924,234
Net assets - beginning of year	18,814,106	18,496,105	11,132,050	10,525,817	29,946,156	29,021,922
Prior Period Adjustment Note 17	(853,832)	-	-	-	(853,832)	-
Net assets - ending of year	\$ 19,137,454	\$ 18,814,106	\$ 10,874,751	\$ 11,132,050	\$ 30,012,205	\$ 29,946,156

Government Activities

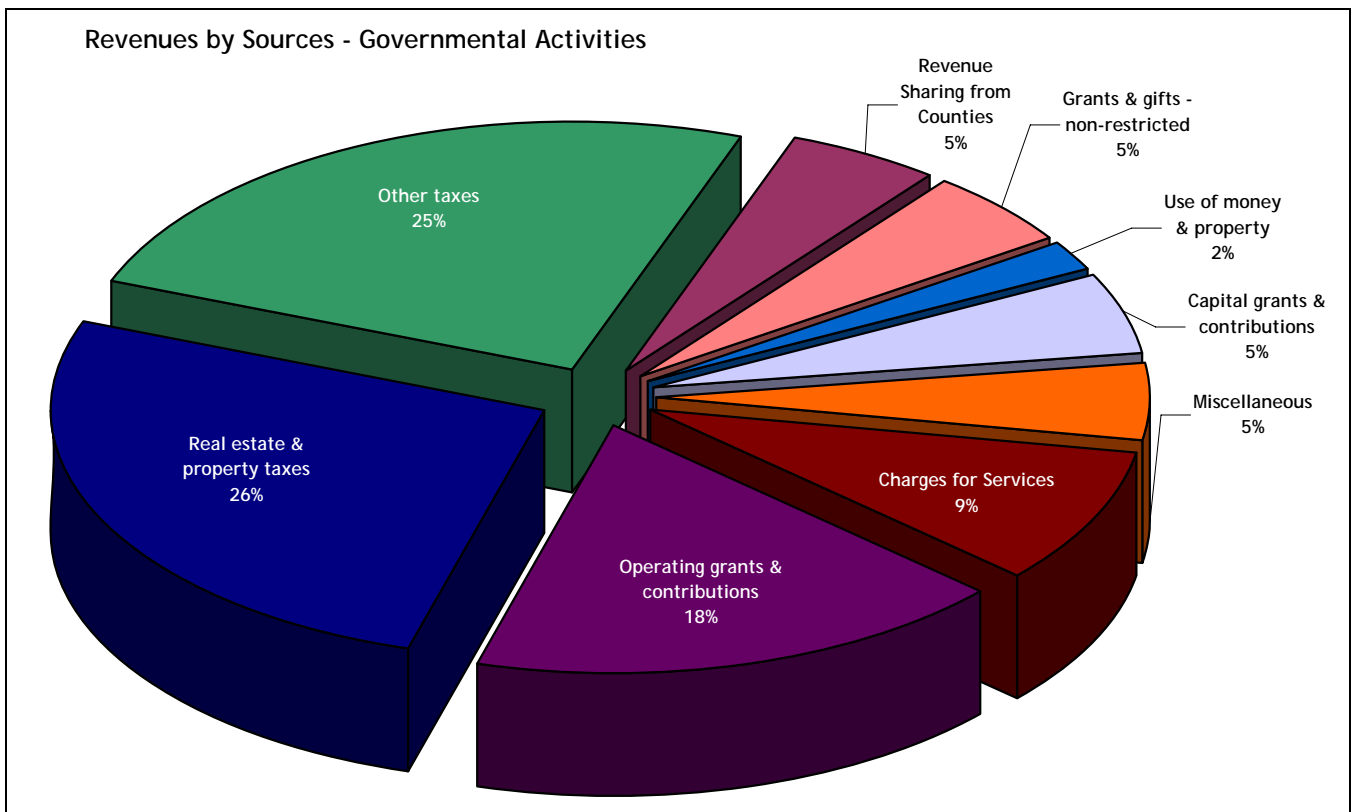
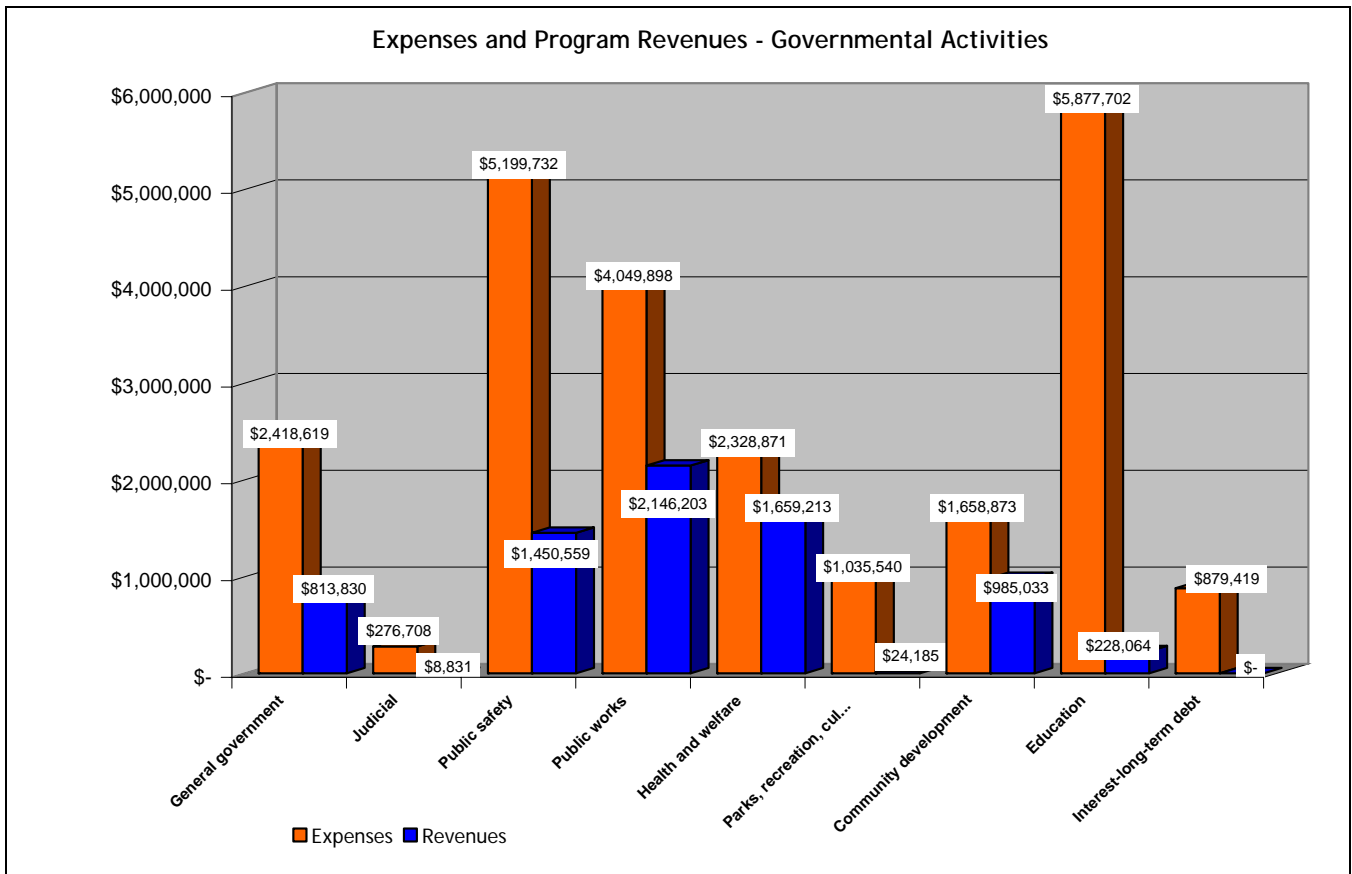
Real estate and property taxes, the City's largest revenue source, was \$6,052,770, up \$757,090 from the previous year. Of this 14.3% increase, most was due to real estate taxes. The City's real estate tax rate decreased from \$0.95 per hundred to \$0.85 but the real estate is appraised every two years and the actually resulted in an effective real estate increase. Personal Property was taxed \$4.50 per \$100 of assessed value. Last year's figures have been restated to move the State Car Tax (Personal Property Tax Relief) payment out of the personal property line to the Grants & gifts - non-restricted line. The City received \$1,048,897 from the Commonwealth of Virginia. This amount has been frozen and will remain the same each year unless changed by some future legislation by the State General Assembly.

The other local tax revenue totaling \$5,683,002 consisted of the 1% local sales tax, consumer utility taxes, franchise license tax, motor vehicle licenses, meals tax, and of other local taxes. Starting in January 1, 2007, the State now collects all communications tax and remits to localities their share based on a historical percentage of the effective taxes the localities were collecting. The communication taxes the city was collecting and will now receive from the State include cable franchise tax, telephone tax, E-911 tax and cellular tax.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government Activities: (Continued)

Revenues from other Counties of \$1,175,879 represent revenue sharing payments received from Isle of Wight and Southampton Counties as part of annexation and service providing agreements.



OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

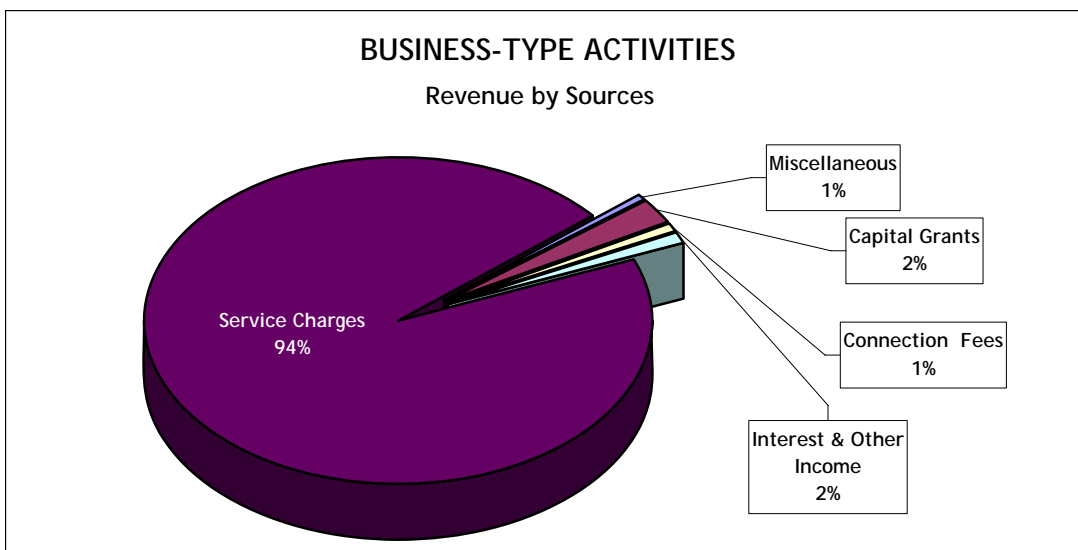
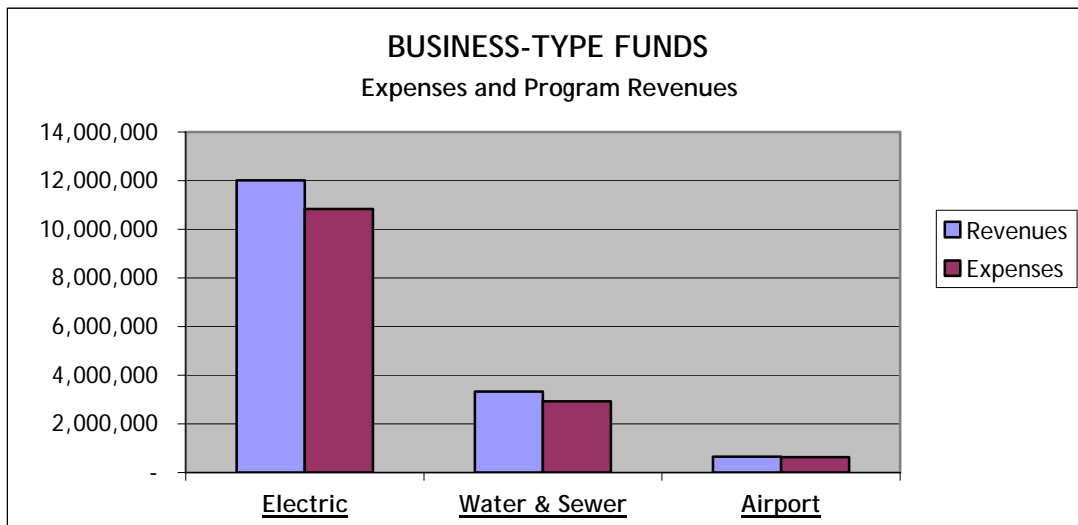
Business- Type Activities

Business-type activities increased the City’s net assets before transfer by \$1,669,608 and after transfers decreased net assets by \$257,299. Key elements of the each fund were:

Water and Sewer Fund had a net increase in assets of \$418,220 with revenue decreasing slightly due to a drop in connection fees of \$498,420. There were no rate increases in water and sewer changes and only a slight increase in charges for basic service. Revenues totaled \$3,349,292 with operating expenses of \$2,680,631 and interest expenses on debt of \$250,441. Consideration for future capital needs and retaining adequate cash balances for operations are reasons for the net increase in assets.

The Electric Fund net revenue before transfers was \$1,228,486 down \$230,132 from the previous year. The primary reason for this decrease was operational costs have increased. The Electric Fund has incurred four 2% increases in the wholesale costs of power over the past four years without any increase in rates. City Council reduced the contribution transfer to the general fund by \$167,498 during the fiscal year ended in June 30, 2007 and budgeted a decrease of \$150,000 in the transfer for the fiscal year ending June 30, 2008.

The Airport Fund increase of \$105,886 in assets was due to capital grants received for capital projects.





## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,231,781.

**General fund.** The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance was \$3,094,618, all of which represents undesignated fund balance of the general fund. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

**Capital projects fund.** The capital projects fund accounts for all construction projects of general public improvements, excluding capital projects related to business-type activities, which are accounted for elsewhere. At the end of the current fiscal year, the fund balance was \$545,812 all of which was encumbered for contracts in process or planned improvements.

**Debt service fund.** The debt service fund has an undesignated balance of \$0. This fund is used to handle current debt payment needs of the City. It contains \$279,236 of restricted assets which are being held by the bond holder to satisfy terms of the Qualified Zone Academy Bonds for the schools.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The net assets of the proprietary funds at the end of the current fiscal year totaled \$10,874,751.

**Enterprise funds.** The City's enterprise funds account for its water and sewer operations, municipal electric operations as well as the City's airport operations. Unrestricted net assets of the major enterprise fund, the electric municipal fund, were \$2,511,591 at the end of the current fiscal year.

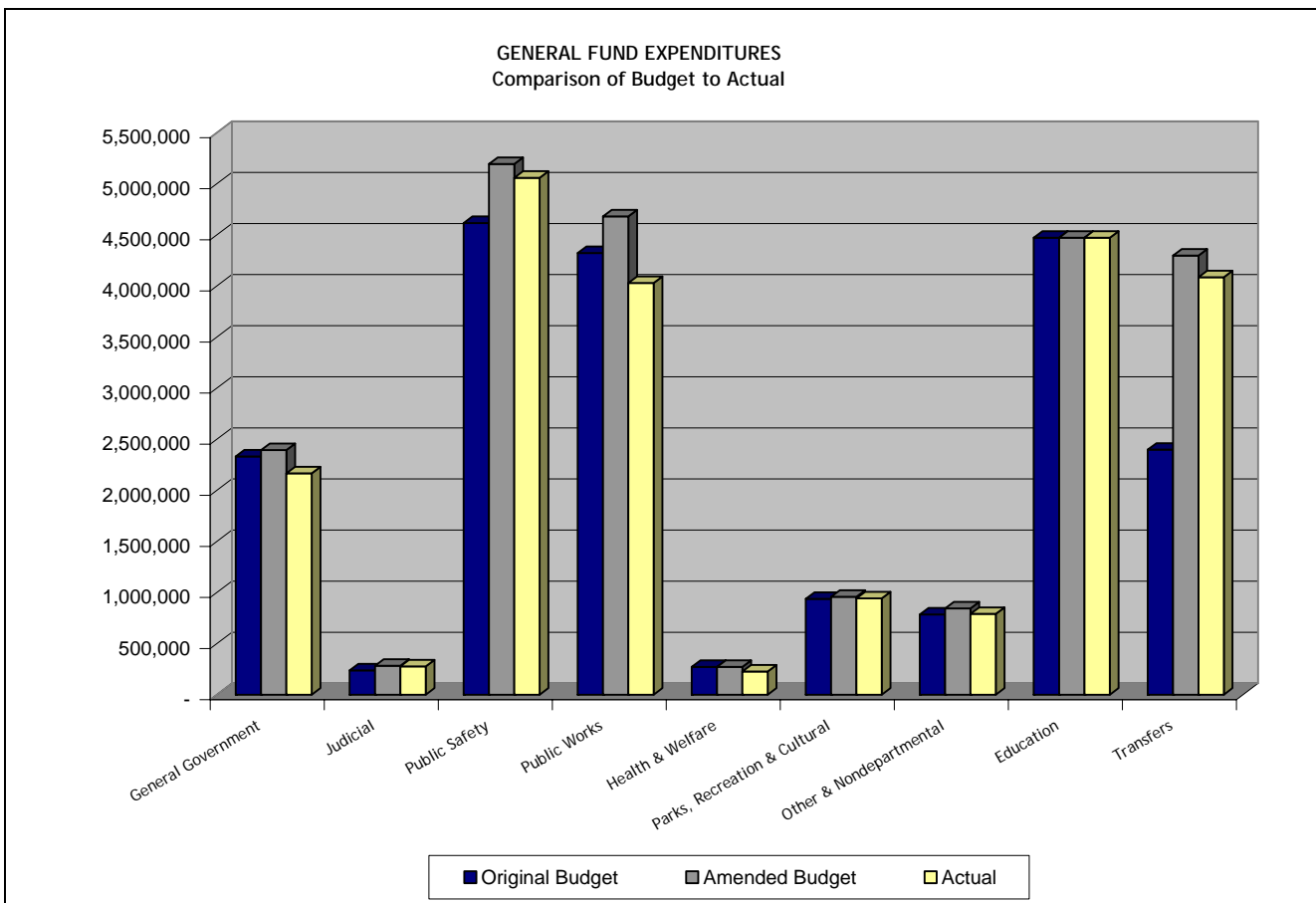
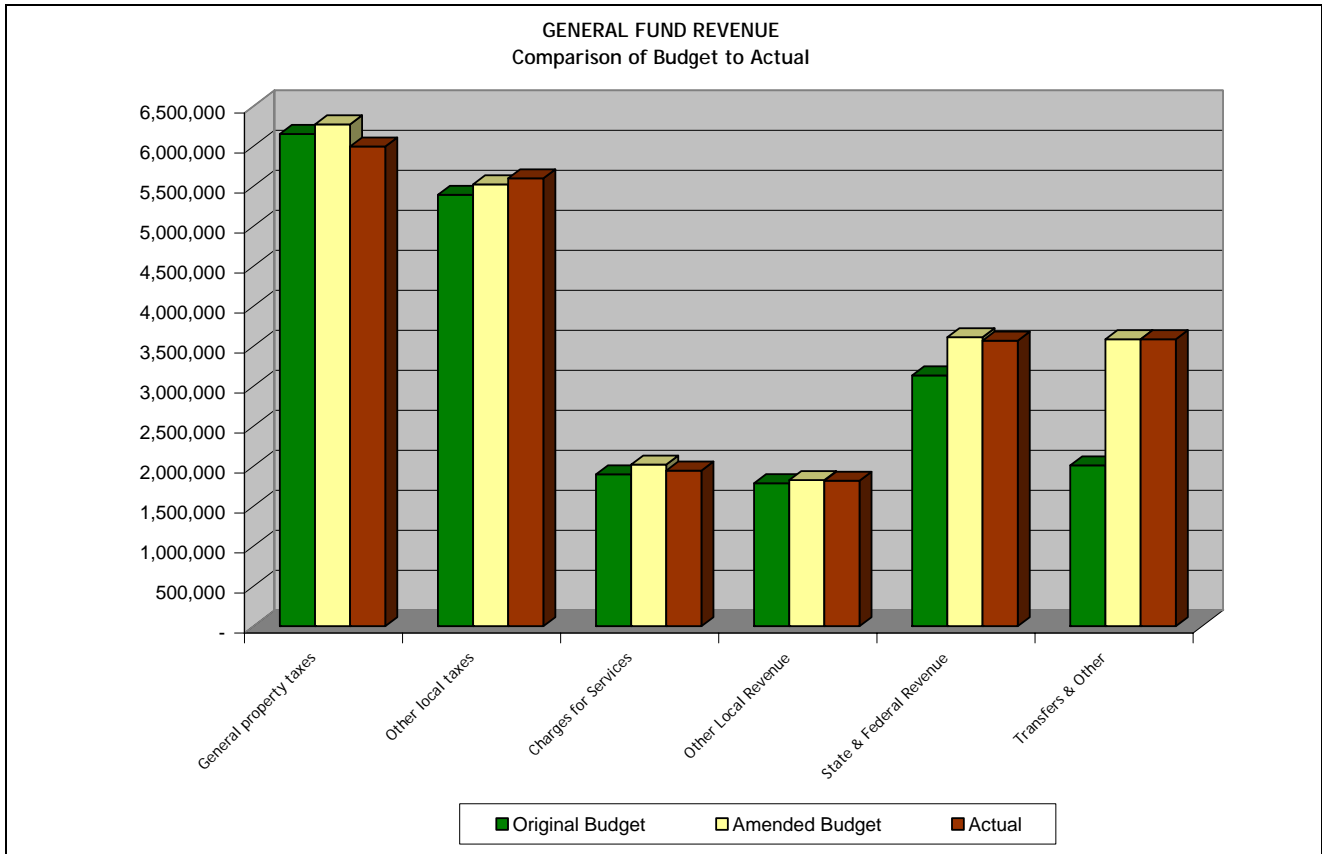
## GENERAL FUND BUDGETARY HIGHLIGHTS

The City's annual budget, which is prepared on an operating basis, includes estimated revenues and annual appropriations. Annual operating budgets are adopted by ordinance for the General Fund, Debt Service Fund, Water & Sewer Fund, Electric Fund, Airport Fund and several Special Revenue Funds. However, the Consolidated Grants Fund, Fiduciary Funds, and the Capital Projects Fund are excluded from the annual operating budget.

Differences between the general fund original budget and the final amended budget resulted in a \$3,024,458 increase in appropriations. \$560,929 of general fund balances for projects, grants or reserves that were approved in previous years but not spent were included in amendments. Other increases were \$1,577,117 for sale of industrial park property; \$477,390 was for additional State and Federal grants awards; \$118,201 additional property taxes and other amendments totaling \$290,821 for numerous smaller items.

**GENERAL FUND BUDGETARY HIGHLIGHTS: (CONTINUED)**

The following charts show the original approved budget, the final amended budget, and actual amounts for both revenues and expenditures in the General Fund.



## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets.** The City's investment in capital assets for its governmental and business type activities as of June 30, 2007, amounted to \$45,132,989, net of accumulated depreciation. This investment in capital assets includes land and easements, buildings, improvements other than buildings, infrastructure, machinery and equipment and construction in progress. This is a \$1,476,543 or 3% decrease due primarily to the sale of industrial park property. Not included in this total are net capital assets of the school board totaling \$10,599,730.

Major capital asset events during the current fiscal year included the following:

- Visitor's Center - TEA 21 - Construction Started
- Boat Landing - Completed In July 2007
- Langston Street Reconstruction CDBG Project nearing completion

	Governmental		Business-Type		Total	
	Activities		Activities			
	FY 2007	FY 2006	FY 2007	FY 2006	FY 2007	FY 2006
Land	\$ 5,060,480	\$ 5,060,480	\$ -	\$ -	\$ 5,060,480	\$ 5,060,480
Construction in progress	1,664,306	459,215	134,714	1,712	1,799,020	460,927
Buildings	13,539,305	15,429,833	1,102,150	708,773	14,641,455	16,138,606
Improvements other than buildings	1,618,358	1,743,384	11,719,752	12,667,888	13,338,110	14,411,272
Machinery and equipment	2,669,048	2,711,217	789,189	903,914	3,458,237	3,615,131
Infrastructure	3,926,963	3,916,630	-	-	3,926,963	3,916,630
Allocations of Component Units	2,908,724	3,006,486	-	-	2,908,724	3,006,486
Totals	<u>\$ 31,387,184</u>	<u>\$ 32,327,245</u>	<u>\$ 13,745,805</u>	<u>\$ 14,282,287</u>	<u>\$ 45,132,989</u>	<u>\$ 46,609,532</u>

Additional information on the City's capital assets can be found in Note 7.

**Debt Administration.** The City's total outstanding general obligation debt at June 30, 2007 was \$20,831,648. This includes \$7,558,477 School related debt and \$7,953,595 of general government debt. Of this total \$15,512,072 is considered to be net direct tax supported debt. \$5,319,576 of the total is from water and sewer, electric and airport fund debt which is supported by revenue from operations in business type activities.

State statutes limit the amount of general obligation debt a government may issue to 10% of its total assessed valuation of real and public service corporations.

	FY 2007	FY 2006
General Government Activities:		
Bonds Payable - General	\$ 7,953,595	\$ 9,957,758
School Related Bonds & Notes	7,558,477	7,867,142
Total Tax Supported Debt	<u>\$ 15,512,072</u>	<u>\$ 17,824,900</u>
Business-type Activities	5,319,576	5,921,586
Total Long-Term Debt	<u>\$ 20,831,648</u>	<u>\$ 23,746,486</u>
Per Capita Tax Supported	\$ 1,763	\$ 2,136
Total Debt Per Capita	\$ 2,367	\$ 2,845

During the current fiscal year, the City the following General Obligation Bonds occurred:

- Sold Industrial Development building and paid off associated G.O. bond.

Additional information on the City's long-term debt can be found in Note 8.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The June 30, 2007 unemployment rate for the City of Franklin was 4.0%, compared to the state's unemployment rate of 3.0% and the average national rate of 4.5%.

Real Estate Tax Rates increased to \$0.90 per hundred with the year starting July 1, 2007.

New businesses locating in Franklin during 2007-08:

- Lowe's Home Improvement
- Farm Fresh Supermarket
- Holiday Inn Express

## **REQUEST FOR INFORMATION**

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance, 207 W. Second Avenue, Franklin, Virginia 23851.

**BASIC FINANCIAL STATEMENTS**

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## **Government-wide Financial Statements**

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Statement of Net Assets  
June 30, 2007

	Primary Government			Component Unit	
	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,406,123	\$ 3,014,751	\$ 5,420,874	\$ 415,094	\$ 13,028
Receivables (net of allowance for uncollectibles):					
Property taxes receivable	334,503	-	334,503	-	-
Other taxes receivable	214,249	-	214,249	-	-
Accounts receivable	348,435	1,634,508	1,982,943	-	-
Internal balances	969,874	(969,874)	-	-	-
Due from primary government	-	-	-	337,604	-
Due from component unit	339,486	-	339,486	-	-
Due from other governmental units	2,792,453	-	2,792,453	497,239	-
Inventories	-	31,314	31,314	8,689	-
Prepaid expenses	1,718	-	1,718	368,651	-
Restricted assets:					
Temporarily restricted:					
Cash and cash equivalents	279,236	-	279,236	-	-
Capital assets (net of accumulated depreciation):					
Land	5,060,480	-	5,060,480	-	-
Land improvements	-	-	-	53,168	-
Buildings and system	16,448,029	1,102,150	17,550,179	5,133,505	-
Improvements other than buildings	1,618,358	-	1,618,358	-	-
Machinery and equipment	2,669,048	789,189	3,458,237	1,298,700	-
Infrastructure	3,926,963	11,719,752	15,646,715	4,114,357	-
Construction in progress	1,664,306	134,714	1,799,020	-	-
Deposits	-	12,633	12,633	-	-
Unamortized bond issue costs	-	28,043	28,043	-	-
Total assets	\$ 39,073,261	\$ 17,497,180	\$ 56,570,441	\$ 12,227,007	\$ 13,028
<b>LIABILITIES</b>					
Reconciled overdraft	\$ 996,375	\$ 18,602	\$ 1,014,977	\$ -	\$ -
Accounts payable	696,782	549,067	1,245,849	60,629	-
Accrued liabilities	-	19,225	19,225	1,086,970	-
Customers' deposits	6,010	427,014	433,024	-	-
Accrued interest payable	199,503	94,023	293,526	-	-
Due to primary government	-	-	-	-	339,486
Due to component unit	337,604	-	337,604	-	-
Long-term liabilities:					
Due within one year	1,744,083	684,793	2,428,876	298,035	-
Due in more than one year	15,955,450	4,829,705	20,785,155	-	-
Total liabilities	\$ 19,935,807	\$ 6,622,429	\$ 26,558,236	\$ 1,445,634	\$ 339,486
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	\$ 15,949,140	\$ 8,363,160	\$ 24,312,300	\$ 10,599,730	\$ -
Unrestricted (deficit)	3,188,314	2,511,591	5,699,905	181,643	(326,458)
Total net assets	\$ 19,137,454	\$ 10,874,751	\$ 30,012,205	\$ 10,781,373	\$ (326,458)

The notes to the financial statements are an integral part of this statement.

CITY OF FRANKLIN, VIRGINIA

Statement of Activities  
For the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT:</b>				
Governmental activities:				
General government administration	\$ 2,418,619	\$ 613,334	\$ 194,012	\$ 6,484
Judicial administration	276,708	8,831	-	-
Public safety	5,199,732	493,587	956,972	-
Public works	4,049,898	877,464	1,268,739	-
Health and welfare	2,328,871	-	1,659,213	-
Education	5,877,702	-	-	228,064
Parks, recreation, and cultural	1,035,540	19,185	5,000	-
Community development	1,658,873	-	12,269	972,764
Interest on long-term debt	879,419	-	-	-
Total government activities	\$ 23,725,362	\$ 2,012,401	\$ 4,096,205	\$ 1,207,312
Business-type activities:				
Water and Sewer	2,931,072	3,330,432	-	-
Electric	10,833,758	12,007,869	-	-
Airport	628,378	251,026	-	400,143
Total business-type activities	14,393,208	15,589,327	-	400,143
Total primary government	\$ 38,118,570	\$ 17,601,728	\$ 4,096,205	\$ 1,607,455
<b>COMPONENT UNITS:</b>				
School Board	\$ 16,123,025	\$ 164,175	\$ 11,387,499	\$ -
Industrial Development Authority	-	-	-	-
Total component units	\$ 16,123,025	\$ 164,175	\$ 11,387,499	\$ -

General revenues:  
 General property taxes  
 Local sales and use taxes  
 Restaurant food taxes  
 Business licenses  
 Consumers' utility taxes  
 Other local taxes  
 Permits, privilege fees, and regulatory licenses  
 Unrestricted revenues from use of money and property  
 Miscellaneous  
 Contribution from City of Franklin  
 Grants and contributions not restricted to specific programs  
 Gain on sale/disposal of assets  
 Transfers  
 Total general revenues  
 Change in net assets  
 Net assets - beginning, restated - Note 17  
 Net assets - ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority
\$ (1,604,789)	\$	\$ (1,604,789)		
(267,877)		(267,877)		
(3,749,173)		(3,749,173)		
(1,903,695)		(1,903,695)		
(669,658)		(669,658)		
(5,649,638)		(5,649,638)		
(1,011,355)		(1,011,355)		
(673,840)		(673,840)		
(879,419)		(879,419)		
<u>\$ (16,409,444)</u>	\$	<u>\$ (16,409,444)</u>		
	399,360	399,360		
	1,174,111	1,174,111		
	22,791	22,791		
	<u>1,596,262</u>	<u>1,596,262</u>		
	\$ <u>1,596,262</u>	\$ <u>(14,813,182)</u>		
			(4,571,351)	\$ -
			-	-
			<u>(4,571,351)</u>	<u>\$ -</u>
\$ 6,052,770	\$ -	\$ 6,052,770	-	-
1,693,082	-	1,693,082	-	-
1,088,750	-	1,088,750	-	-
834,529	-	834,529	-	-
649,309	-	649,309	-	-
1,332,374	-	1,332,374	-	-
84,958	-	84,958	-	-
460,631	73,346	533,977	2,479	50
2,330,817	-	2,330,817	124,777	860
-	-	-	5,877,702	-
1,132,497	-	1,132,497	-	-
-	-	-	-	-
1,926,907	(1,926,907)	-	-	-
<u>\$ 17,586,624</u>	<u>\$ (1,853,561)</u>	<u>\$ 15,733,063</u>	<u>\$ 6,004,958</u>	<u>\$ 910</u>
<u>\$ 1,177,180</u>	<u>\$ (257,299)</u>	<u>\$ 919,881</u>	<u>\$ 1,433,607</u>	<u>\$ 910</u>
<u>17,960,274</u>	<u>11,132,050</u>	<u>29,092,324</u>	<u>9,347,766</u>	<u>(327,368)</u>
<u>\$ 19,137,454</u>	<u>\$ 10,874,751</u>	<u>\$ 30,012,205</u>	<u>\$ 10,781,373</u>	<u>\$ (326,458)</u>

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## **Fund Financial Statements**

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## Balance Sheet

## Governmental Funds

June 30, 2007

	General	Virginia Public Assistance	Capital Projects	Debt Service	Other Governmental Funds	Total
<b>ASSETS</b>						
Cash and cash equivalents	\$ 907,600	\$ 184,567	\$ 464,360	\$ -	\$ 849,596	\$ 2,406,123
Receivables (net of allowance for uncollectibles):						
Property taxes receivable	334,503	-	-	-	-	334,503
Other taxes receivable	214,249	-	-	-	-	214,249
Accounts receivable	205,677	-	-	-	142,758	348,435
Due from other funds	969,874	239,253	-	-	-	1,209,127
Due from component unit	339,486	-	-	-	-	339,486
Due from other governmental units	1,509,319	102,035	958,010	-	223,089	2,792,453
Prepaid items	1,718	-	-	-	-	1,718
Restricted assets:						
Temporarily restricted:						
Cash and cash equivalents	-	-	-	279,236	-	279,236
Total assets	<u>\$ 4,482,426</u>	<u>\$ 525,855</u>	<u>\$ 1,422,370</u>	<u>\$ 279,236</u>	<u>\$ 1,215,443</u>	<u>\$ 7,925,330</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Reconciled overdraft	\$ -	\$ -	\$ 641,773	\$ -	\$ 354,602	\$ 996,375
Accounts payable	407,656	10,980	234,785	-	43,361	696,782
Customers' deposits	6,010	-	-	-	-	6,010
Due to other funds	239,253	-	-	-	-	239,253
Due to component unit	337,604	-	-	-	-	337,604
Deferred revenue	397,285	-	-	-	-	397,285
Deposits held in escrow	-	-	-	-	20,240	20,240
Total liabilities	<u>\$ 1,387,808</u>	<u>\$ 10,980</u>	<u>\$ 876,558</u>	<u>\$ -</u>	<u>\$ 418,203</u>	<u>\$ 2,693,549</u>
Fund balances:						
Reserved for:						
Debt service	\$ -	\$ -	\$ -	\$ 279,236	\$ -	\$ 279,236
Unreserved, reported in:						
General fund	3,094,618	-	-	-	-	3,094,618
Special revenue funds	-	514,875	-	-	664,172	1,179,047
Capital projects funds	-	-	545,812	-	-	545,812
Permanent funds	-	-	-	-	133,068	133,068
Total fund balances	<u>\$ 3,094,618</u>	<u>\$ 514,875</u>	<u>\$ 545,812</u>	<u>\$ 279,236</u>	<u>\$ 797,240</u>	<u>\$ 5,231,781</u>
Total liabilities and fund balances	<u>\$ 4,482,426</u>	<u>\$ 525,855</u>	<u>\$ 1,422,370</u>	<u>\$ 279,236</u>	<u>\$ 1,215,443</u>	<u>\$ 7,925,330</u>

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Balance Sheet of Governmental Funds  
 To the Statement of Net Assets  
 June 30, 2007

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Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds \$ 5,231,781

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Capital assets, cost	\$ 49,688,948	
Less: accumulated depreciation	<u>(18,301,764)</u>	31,387,184

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Deferred revenue	\$ 397,285	
Deposits	<u>20,240</u>	417,525

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of:

Bonds, notes and loans payable	\$ (16,032,072)	
Interest payable	(199,503)	
Capital lease obligations	(125,608)	
Compensated absences	(656,529)	
Landfill closure cost liability	<u>(885,324)</u>	<u>(17,899,036)</u>

Net assets of governmental activities	\$	<u><u>19,137,454</u></u>
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The notes to the financial statements are an integral part of this statement.



Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Governmental Funds  
 For the Year Ended June 30, 2007

	General	Virginia Public Assistance	Capital Projects	Debt Service	Other Governmental Funds	Total
<b>REVENUES</b>						
General property taxes	\$ 5,996,085	\$ -	\$ -	\$ -	\$ -	\$ 5,996,085
Other local taxes	5,598,044	-	-	-	-	5,598,044
Permits, privilege fees, and regulatory licenses	84,958	-	-	-	-	84,958
Fines and forfeitures	67,106	-	-	-	-	67,106
Revenue from the use of money and property	283,298	-	7,546	2,300	167,487	460,631
Charges for services	1,945,295	-	-	-	-	1,945,295
Miscellaneous	1,322,250	-	207,353	-	720,848	2,250,451
Recovered costs	60,409	-	-	-	713,493	773,902
Intergovernmental revenues:						
Local government	-	-	131,600	-	-	131,600
Commonwealth	3,149,115	371,132	28,400	228,064	177,099	3,953,810
Federal	419,896	1,117,944	664,175	-	148,589	2,350,604
Total revenues	<u>\$ 18,926,456</u>	<u>\$ 1,489,076</u>	<u>\$ 1,039,074</u>	<u>\$ 230,364</u>	<u>\$ 1,927,516</u>	<u>\$ 23,612,486</u>
<b>EXPENDITURES</b>						
Current:						
General government administration	\$ 2,166,082	\$ -	\$ -	\$ -	\$ 4,383	\$ 2,170,465
Judicial administration	277,318	-	-	-	-	277,318
Public safety	5,059,598	-	-	-	120,311	5,179,909
Public works	4,030,077	-	-	-	699,756	4,729,833
Health and welfare	227,678	1,732,976	-	-	434,997	2,395,651
Education	4,472,469	-	-	-	-	4,472,469
Parks, recreation, and cultural	942,910	-	-	-	35,199	978,109
Community development	771,928	-	-	-	896,371	1,668,299
Nondepartmental	19,502	-	-	-	1,367	20,869
Capital projects	-	-	2,413,468	-	-	2,413,468
Debt service:						
Principal retirement	-	-	-	2,557,013	-	2,557,013
Interest and other fiscal charges	-	-	-	679,916	-	679,916
Total expenditures	<u>\$ 17,967,562</u>	<u>\$ 1,732,976</u>	<u>\$ 2,413,468</u>	<u>\$ 3,236,929</u>	<u>\$ 2,192,384</u>	<u>\$ 27,543,319</u>
Excess (deficiency) of revenues over (under) expenditures	\$ 958,894	\$ (243,900)	\$ (1,374,394)	\$ (3,006,565)	\$ (264,868)	\$ (3,930,833)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	\$ 2,009,891	\$ 418,985	\$ 50,000	\$ 3,178,870	\$ 424,524	\$ 6,082,270
Transfers out	(4,087,175)	-	-	-	(68,188)	(4,155,363)
Sale of capital assets	1,577,117	-	-	-	-	1,577,117
Total other financing sources (uses)	<u>\$ (500,167)</u>	<u>\$ 418,985</u>	<u>\$ 50,000</u>	<u>\$ 3,178,870</u>	<u>\$ 356,336</u>	<u>\$ 3,504,024</u>
Net change in fund balances	\$ 458,727	\$ 175,085	\$ (1,324,394)	\$ 172,305	\$ 91,468	\$ (426,809)
Fund balances - beginning, restated - Note 17	2,635,891	339,790	1,870,206	106,931	705,772	5,658,590
Fund balances - ending	<u>\$ 3,094,618</u>	<u>\$ 514,875</u>	<u>\$ 545,812</u>	<u>\$ 279,236</u>	<u>\$ 797,240</u>	<u>\$ 5,231,781</u>

The notes to the financial statements are an integral part of this statement.

Reconciliation of Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
For the Year Ended June 30, 2007

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Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$	(426,809)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The following is a computation of these differences.

Capital asset additions	\$ 2,401,691	
Depreciation expense	<u>(1,631,835)</u>	769,856

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	(1,709,918)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	137,051
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This following is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments	2,644,006	
Increase in landfill liability	<u>(24,951)</u>	2,619,055

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

Compensated absences	(12,552)	
Accrued interest	<u>(199,503)</u>	<u>(212,055)</u>

Change in net assets of governmental activities	\$	<u><u>1,177,180</u></u>
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The notes to the financial statements are an integral part of this statement.

Statement of Net Assets  
 Proprietary Funds  
 June 30, 2007

	Water and Sewer Fund	Electric Fund	Airport Fund	Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 911,555	\$ 2,103,196	\$ -	\$ 3,014,751
Accounts receivable, net of allowances for uncollectibles	479,451	1,143,104	11,953	1,634,508
Inventories	-	-	31,314	31,314
Unamortized bond issue costs - current portion	-	1,945	327	2,272
Total current assets	<u>\$ 1,391,006</u>	<u>\$ 3,248,245</u>	<u>\$ 43,594</u>	<u>\$ 4,682,845</u>
Noncurrent assets:				
Other assets:				
Deposits	\$ -	\$ -	\$ 12,633	\$ 12,633
Unamortized bond issue costs	-	25,771	-	25,771
Capital assets:				
Buildings	-	34,966	1,405,576	1,440,542
Equipment and furniture/fixtures	941,420	1,774,150	262,659	2,978,229
Infrastructure	13,621,558	11,929,961	3,398,714	28,950,233
Less: accumulated depreciation	(9,326,022)	(7,974,202)	(2,457,689)	(19,757,913)
Construction in progress	-	-	134,714	134,714
Total capital assets	<u>\$ 5,236,956</u>	<u>\$ 5,764,875</u>	<u>\$ 2,743,974</u>	<u>\$ 13,745,805</u>
Total noncurrent assets	<u>\$ 5,236,956</u>	<u>\$ 5,790,646</u>	<u>\$ 2,756,607</u>	<u>\$ 13,784,209</u>
Total assets	<u>\$ 6,627,962</u>	<u>\$ 9,038,891</u>	<u>\$ 2,800,201</u>	<u>\$ 18,467,054</u>
<b>LIABILITIES</b>				
Current liabilities:				
Reconciled overdraft	\$ -	\$ -	\$ 18,602	\$ 18,602
Accounts payable	351,627	178,063	19,377	549,067
Accrued liabilities	7,079	10,405	1,741	19,225
Customers' deposits	-	427,014	-	427,014
Accrued interest payable	66,951	26,513	559	94,023
Due to other funds	-	-	969,874	969,874
Compensated absences	39,378	86,121	6,354	131,853
Current portion of long-term liabilities	443,590	81,496	27,854	552,940
Total current liabilities	<u>\$ 908,625</u>	<u>\$ 809,612</u>	<u>\$ 1,044,361</u>	<u>\$ 2,762,598</u>
Noncurrent liabilities:				
Long-term liabilities - less current portion	\$ 3,588,133	\$ 1,241,572	\$ -	\$ 4,829,705
Total noncurrent liabilities	<u>\$ 3,588,133</u>	<u>\$ 1,241,572</u>	<u>\$ -</u>	<u>\$ 4,829,705</u>
Total liabilities	<u>\$ 4,496,758</u>	<u>\$ 2,051,184</u>	<u>\$ 1,044,361</u>	<u>\$ 7,592,303</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 1,205,233	\$ 4,441,807	\$ 2,716,120	\$ 8,363,160
Unrestricted	925,971	2,545,900	(960,280)	2,511,591
Total net assets	<u>\$ 2,131,204</u>	<u>\$ 6,987,707</u>	<u>\$ 1,755,840</u>	<u>\$ 10,874,751</u>

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Assets  
 Proprietary Funds  
 For the Year Ended June 30, 2007

	Water and Sewer Fund	Electric Fund	Airport Fund	Total
<b>OPERATING REVENUES</b>				
Charges for services	\$ 3,247,668	\$ 11,749,214	\$ 245,294	\$ 15,242,176
Miscellaneous	264	89,091	5,732	95,087
Total operating revenues	<u>\$ 3,247,932</u>	<u>\$ 11,838,305</u>	<u>\$ 251,026</u>	<u>\$ 15,337,263</u>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	\$ 760,394	\$ 1,115,149	\$ 102,401	\$ 1,977,944
Purchased services - for resale	-	8,163,527	-	8,163,527
Contractual services	119,519	155,950	862	276,331
Utilities	176,503	33,251	18,160	227,914
Repairs and maintenance	68,562	54,243	18,483	141,288
Supplies and small equipment	232,311	146,384	167,657	546,352
Insurance	44,383	26,527	18,026	88,936
Taxes and licenses	13,038	695	-	13,733
Travel and training	6,653	6,026	118	12,797
Other charges	9,166	9,385	288	18,839
Payment to general fund for services and taxes	335,160	344,199	1,850	681,209
Depreciation and amortization	914,942	603,199	297,136	1,815,277
Total operating expenses	<u>\$ 2,680,631</u>	<u>\$ 10,658,535</u>	<u>\$ 624,981</u>	<u>\$ 13,964,147</u>
Operating income (loss)	<u>\$ 567,301</u>	<u>\$ 1,179,770</u>	<u>\$ (373,955)</u>	<u>\$ 1,373,116</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Connection fees	\$ 82,500	\$ 25,280	\$ -	\$ 107,780
Interest income	18,860	54,375	111	73,346
Cut-off fees and penalties	-	144,284	-	144,284
Environmental settlement expense (Note 19)	-	(72,274)	-	(72,274)
Interest expense	(250,441)	(102,949)	(3,397)	(356,787)
Total nonoperating revenues (expenses)	<u>\$ (149,081)</u>	<u>\$ 48,716</u>	<u>\$ (3,286)</u>	<u>\$ (103,651)</u>
Income before contributions and transfers	<u>\$ 418,220</u>	<u>\$ 1,228,486</u>	<u>\$ (377,241)</u>	<u>\$ 1,269,465</u>
Capital grants:				
Commonwealth	\$ -	\$ -	\$ 62,807	\$ 62,807
Federal	-	-	337,336	337,336
Transfers in	-	-	82,984	82,984
Transfers out	-	(2,009,891)	-	(2,009,891)
Change in net assets	<u>\$ 418,220</u>	<u>\$ (781,405)</u>	<u>\$ 105,886</u>	<u>\$ (257,299)</u>
Total net assets - beginning	1,712,984	7,769,112	1,649,954	11,132,050
Total net assets - ending	<u>\$ 2,131,204</u>	<u>\$ 6,987,707</u>	<u>\$ 1,755,840</u>	<u>\$ 10,874,751</u>

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows  
 Proprietary Funds  
 For the Year Ended June 30, 2007

	Water and Sewer Fund	Electric Fund	Airport Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 3,207,962	\$ 11,854,735	\$ 243,608	\$ 15,306,305
Payments to suppliers for goods and services	(1,009,893)	(8,995,487)	(204,909)	(10,210,289)
Payments to employees	(586,597)	(1,014,075)	(103,098)	(1,703,770)
Net cash provided (used by) operating activities	<u>\$ 1,611,472</u>	<u>\$ 1,845,173</u>	<u>\$ (64,399)</u>	<u>\$ 3,392,246</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds	\$ -	\$ (2,009,891)	\$ -	\$ (2,009,891)
Transfers from other funds	-	-	82,984	82,984
Net cash provided (used) by noncapital financing activities	<u>\$ -</u>	<u>\$ (2,009,891)</u>	<u>\$ 82,984</u>	<u>\$ (1,926,907)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Capital grants	\$ -	\$ -	\$ 400,143	\$ 400,143
Acquisition and construction of capital assets	(504,613)	(365,983)	(408,905)	(1,279,501)
Principal paid on capital debt	(427,507)	(168,114)	(26,388)	(622,009)
Interest paid on capital debt	(183,490)	(74,491)	(2,348)	(260,329)
Connection and cut-off fees	82,500	169,564	-	252,064
Net cash provided (used) by capital and related financing activities	<u>\$ (1,033,110)</u>	<u>\$ (439,024)</u>	<u>\$ (37,498)</u>	<u>\$ (1,509,632)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends received	\$ 18,860	\$ 54,375	\$ 111	\$ 73,346
Net cash provided (used) by investing activities	<u>\$ 18,860</u>	<u>\$ 54,375</u>	<u>\$ 111</u>	<u>\$ 73,346</u>
Net increase (decrease) in cash and cash equivalents	\$ 597,222	\$ (549,367)	\$ (18,802)	\$ 29,053
Cash and cash equivalents - beginning	314,333	2,652,563	200	2,967,096
Cash and cash equivalents - ending	<u>\$ 911,555</u>	<u>\$ 2,103,196</u>	<u>\$ (18,602)</u>	<u>\$ 2,996,149</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ 567,301	\$ 1,179,770	\$ (373,955)	\$ 1,373,116
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	\$ 914,942	\$ 603,199	\$ 297,136	\$ 1,815,277
(Increase) decrease in accounts receivable	(39,970)	16,430	(7,418)	(30,958)
(Increase) decrease in inventories	-	-	1,702	1,702
Increase (decrease) in accounts payable	342,996	96,507	17,439	456,942
Increase (decrease) in accrued liabilities	(175,939)	(104,409)	136	(280,212)
Increase (decrease) in compensated absences	2,142	3,335	561	6,038
Increase (decrease) customer deposits	-	50,341	-	50,341
Total adjustments	<u>\$ 1,044,171</u>	<u>\$ 665,403</u>	<u>\$ 309,556</u>	<u>\$ 2,019,130</u>
Net cash provided (used) by operating activities	<u>\$ 1,611,472</u>	<u>\$ 1,845,173</u>	<u>\$ (64,399)</u>	<u>\$ 3,392,246</u>

The notes to the financial statements are an integral part of this statement.

Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2007

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 197,853
Total assets	<u>\$ 197,853</u>
<b>LIABILITIES</b>	
Amounts held for others	\$ 197,853
Total liabilities	<u>\$ 197,853</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF FRANKLIN, VIRGINIA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007

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**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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The City of Franklin, Virginia (City) is a political subdivision of the Commonwealth of Virginia operating under the council-manager form of government. The elected seven-member City Council, vested with legislative powers, appoints the City Manager who is the executive and administrative head of the City's government.

The financial statements of the City of Franklin, Virginia have been prepared in conformity with accounting principles generally accepted in the United States of America as specified by the Governmental Accounting Standards Board (GASB) and the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia. The more significant of the government's accounting policies are described below.

**A. Government-wide and Fund Financial Statements**

Management's Discussion and Analysis

GASB Statement No. 34 and GASB Statement No. 37 requires financial statements to be accompanied by a narrative introduction of the basic financial statements and an analytical overview of the government's financial activities in the form of Management's Discussion and Analysis (MD&A).

Government-Wide Financial Statements

The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenue and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

Statement of Net Assets

The Statement of Net Assets is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component units. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net assets of the government are broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities

The government-wide Statement of Activities reports expenses and revenues in the format that focuses on the cost of each government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or grants).

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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**A. Government-wide and Fund Financial Statements: (Continued)**

Budgetary Comparison Schedules

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments, however, revise their original budget over the course of the year for a variety of reasons. Under the new reporting model, governments will continue to provide budgetary comparison information in their annual report. An important change is the requirement to add the government's original budget to the current comparison of final budget and actual results.

**B. Other Related Organizations**

Included in the City's Financial Report

None

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

**Government-Wide and Fund Accounting Financial Statements**

The basic financial statements include both government-wide (based on the City as a whole) and fund accounting financial statements. While the previous reporting model emphasized fund types (the total of all funds of a particular type), in the current reporting model the focus is on either the City as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund accounting financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are (a) presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The City generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific transaction.



NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (Continued)**

**Government-Wide and Fund Accounting Financial Statements: (Continued)**

The government-wide Statement of Activities is reported using the economic resources measurement focus and the accrual basis of accounting which reflect both the gross and net cost per functional category (public safety, public works, health and welfare, etc.), which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity. The City does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource measurement focus using modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the funds based financial statements with the governmental column of the government-wide presentation.

The City's fiduciary funds (which have been redefined and narrowed in scope) are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The focus of the revised model is on the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category) and the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

The government-wide Statements of Net Assets and Statement of Activities and all proprietary funds and trust funds are accounted for using the economic resources measurement focus and the accrual basis of accounting.

With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on their Statement of Net Assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expense) in net total assets.

The Statement of Net Assets and Statement of Activities of the Proprietary Funds and Fiduciary Funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (Continued)**

**Government-Wide and Fund Accounting Financial Statements: (Continued)**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet on the funds statements. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balances.

The fund financial statements of the General, Capital Projects, Debt Service, and Special Revenue Funds are maintained and reported on the modified accrual basis of accounting. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenues and other local taxes, the term "available" is limited to collections within sixty days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and state reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The focus of governmental and proprietary fund financial statements is on major funds. Fund statements present the financial information of each major fund in a separate column. Nonmajor funds are aggregated and displayed in a single column.

The main operating fund, the general fund, is always reported as a major fund. Other individual governmental or enterprise funds are reported in separate columns as major funds based on the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of the fund are at least 10% of the corresponding total for all funds of that category or type (that is, total governmental or total enterprise funds), and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that management believes is particularly important to financial statement users may be reported as a major fund.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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C. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (Continued)

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed.

General Fund

The General Fund is the primary operating fund of the City. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal grants and subsidies, licenses, permits, charges for services, and interest income. A significant part of the General Fund's revenues is transferred to other funds and component units. The General Fund is considered a major fund.

Special Revenue Funds

The Special Revenue Fund accounts for revenue derived from specific sources (other than major capital projects) that are restricted by legal and regulatory provisions to finance specific activities.

Virginia Public Assistance Fund—accounts for revenues and expenditures related to services provided by the Department of Social Services. Most revenues are derived from the Commonwealth of Virginia and the federal government. This fund is considered a major fund.

Regional Fire Training Grounds Fund—accounts for revenues and expenditures related to maintenance of the Regional Fire Training grounds. Most revenues are derived from interest earned on bank deposits.

Police Federal Forfeiture Fund—accounts for revenues and expenditures related to police forfeitures. Revenues are derived from entitlement funds received from the federal government.

Community Development Grant Fund—accounts for all entitlement funds received under Title I of the Housing and Community Development Act of 1974, commonly known as the Community Development Block Grant Program.

Foundation Grants Fund—accounts for revenues and expenditures related to local grants. Revenues are derived from local grants.

Comprehensive Services Act Fund—accounts for revenues and expenditures related to the Comprehensive Services Act for At-risk Youth and Families. Revenues are derived from categorical aid received from the Commonwealth of Virginia.

Western Tidewater Home Consortium—accounts for revenues and expenditures related to a joint venture with the City of Suffolk and Isle of Wight County to provide affordable housing.

Police State Forfeiture Fund—accounts for revenues and expenditures related to police forfeitures. Revenues are derived from entitlement funds received from the Commonwealth of Virginia.

Police Evidence Holding Fund—accounts for revenues and expenditures related to police evidence that is held for the courts.

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

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NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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C. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (Continued)

Special Revenue Funds: (Continued)

Willie Camp Younts-accounts for revenues and expenditures related to the maintenance of the Willie Camp Younts cemetery.

Community Development Downtown Grant Fund-accounts for revenues and expenditures related to development and rehabilitation of the downtown area. Revenues are derived from categorical aid received from the Commonwealth of Virginia and the federal government.

Cobbtown Grant Fund-accounts for revenues and expenditures related to development and rehabilitation of the Cobbtown area of the City. Revenues are derived from categorical aid received from the Commonwealth of Virginia and the federal government.

Emergency Disaster Fund-accounts for revenues and expenditures related to the reconstruction of the City area caused by the devastation of Hurricane Isabel. Revenues are derived from aid received from the Commonwealth of Virginia and the federal government.

Fire and Rescue Volunteers-accounts for revenues and expenditures related to the activities of the fire and rescue volunteers.

Economic Development Fund-accounts for revenue and expenditures related to economic development efforts of the City including rental of the building in Pretlow Industrial Park and operation of the incubator building.

Camp Homestead Fund-accounts for revenue and expenditures related to the maintenance and upkeep of the Camp family home on Homestead Lane.

**Debt Service Fund**

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. The Debt Service Fund is considered a major fund.

**Capital Projects Fund**

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund types). The Capital Projects Fund is considered a major fund.

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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C. **Measurement Focus, Basis of Accounting and Financial Statement Presentation: (Continued)**

**Permanent Funds**

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs. Previously presented as expendable Trust Funds, the City's Permanent Funds are used to account for perpetual care and endowed care of certain City-owned cemeteries. Permanent Fund balances are included in governmental activities for both the government-wide and fund financial statements. The Charles Smith Cemetery Trust, Cemetery Perpetual Care Trust, Employee Emergency Trust, and Southview Cemetery Trust funds are accounted for as Permanent Funds.

**Proprietary Funds**

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the primary government's business activities are accounted for through proprietary funds. The measurement focus is on the determination of net income, financial position, and cash flows. Proprietary Funds distinguish operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Proprietary Funds are charges for services. Operating expenses include cost of sales and services, personnel, contractual services, and depreciation. The City has implemented private sector guidance issued after November 30, 1989, in reporting business-type activities of the proprietary funds. The City's proprietary funds consist of only enterprise funds.

**Enterprise Funds**

The Enterprise Funds account for operations that are financed in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Water and Sewer Fund-accounts for the provision of water and sewer services to City residents. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operation, maintenance, billing, collections, financing and related debt service and fixed assets of the water and sewage systems.

Electric Fund-accounts for the provision of electrical services to City residents. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operation, maintenance, billing, collections, financing and related debt service and fixed assets of the electrical systems.

Airport Fund-accounts for the operations of the City-owned airport. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operation, maintenance, billing, collections, financing and related debt service and fixed assets of the airport.

**Fiduciary Funds**

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individual, private organizations and other governments. Fiduciary funds are not included in the government-wide financial statements.

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

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**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (Continued)**

**Trust and Agency Funds**

Trust and Agency Funds include nonexpendable trust funds and agency funds. Nonexpendable trust funds are accounted for and reported as Proprietary Fund types because capital maintenance is critical. Nonexpendable trust funds account for the expenditure of income earned by principal held in trust, the principal amount of which cannot be expended.

**Agency Funds**

Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The following are agency funds reported by the City:

Special Welfare Fund and Special Welfare - SSI Fund—account for receipts of welfare checks and foster children support checks from the state government and payments made on behalf of individuals.

Franklin-Southampton Economic Development Commission—accounts for monies received from the City and Southampton County to promote business development.

Flexible Benefits—accounts for monies received from employees to pay for medical claims.

Early Childhood Commission—accounts for monies received to promote early childhood growth.

**Discretely Presented Component Units**

**City of Franklin Public Schools**

The City of Franklin Public Schools (School Board) is responsible for elementary and secondary education within the City. The Schools are fiscally dependent upon the City because the City Council approves the annual budget of the Schools, levies the necessary taxes to finance the Schools' operations and approves the borrowing of money.

School Operating Fund—accounts for revenues and expenditures relating to the operation of the City of Franklin Public Schools. Revenues are derived from the General Fund and from state and federal funds.

School Food Service Fund—accounts for revenues and expenditures relating to the operation of school cafeterias. Revenues are derived from state and federal funds.

School Textbook Fund—accounts for revenues and expenditures relating to the purchase of school textbooks. Revenues are derived from state and federal funds.

Combined School Activity Funds—accounts for revenues and expenditures of the various activity funds of each of the three Franklin public schools. Revenues are derived from school fundraisers and event receipts.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (Continued)**

**Discretely Presented Component Units: (Continued)**

City of Franklin Public Schools: (Continued)

Industrial Development Authority

The Industrial Development Authority of the City of Franklin (IDA) was established under the Industrial Development and Revenue Bond Act - *Code of Virginia*. A separate board appointed by the City Council governs the IDA. The IDA is authorized to acquire, own, lease and dispose of properties and to conduct related activities to promote industry and develop trade by inducing manufacturing, industrial, governmental and commercial enterprises to locate or to remain in the City. The City makes significant capital contributions toward the property the IDA develops and markets.

**D. Budgets and Budgetary Accounting**

The City utilizes the following procedures in establishing the budgetary data reflected in the required supplementary information:

- At least 60 days prior to June, 30, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- The budget is formulated from estimates of revenues and expected expenditures from each department. The School Board is treated as a single expenditure line item.
- When the City Manager submits the proposed budget to City Council, he also recommends an appropriation ordinance and an ordinance levying the tax rates for the ensuing year.
- City Council then holds public hearings on the proposed budget. Notice of such public hearing must appear in a local newspaper not less than seven days prior to the hearing.
- The budget must be approved by a majority vote of City Council and legally adopted before July 1. If City Council does not adopt the proposed budget before July 1, the budget as submitted is automatically adopted.
- Additional appropriations may be made by City Council only if there is an undesignated fund balance or additional funding becomes available.
- The City Manager is authorized to transfer budgeted amounts within departments. Expenditures over the original budget of any department must be approved by City Council. The School Board is authorized to transfer budgeted amounts within the school system's categories.
- Appropriations lapse on June 30, for all City units, except for the Capital Projects Fund which carries unexpended balances into the following year on a project by project basis.
- All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America as applicable to governmental entities.

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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**D. Budgets and Budgetary Accounting: (Continued)**

Formal budgetary information is employed as a management control device. Annual operating budgets are adopted by ordinance passed by City Council for the General Fund, several Special Revenue Funds, the Debt Service Fund and the Proprietary Funds.

Budgets for proprietary fund types are prepared on the accrual basis of accounting. The General, Special Revenue and Debt Service funds' budgets are adopted on the modified accrual basis of accounting.

**E. Allowance for Uncollectible Accounts**

The City calculates its allowances for uncollectible property taxes, refuse collection and utility service charges using historical collection data. At June 30, 2007, the allowance attributed to property taxes amounted to \$313,479, refuse collection in the amount of \$24,882 and utility service charges in the amount of \$816,869.

**F. Cash and Investments**

Cash and investments are stated at cost which approximates fair value. Interest income on investments is allocated to the appropriate funds based upon the average monthly cash balance of each fund. Interest income is accrued as earned.

**G. Inventories**

Inventories of materials and supplies in the governmental and proprietary fund types are recorded at cost. The cost of inventory is recorded as an expenditure at the time individual inventory items are consumed (consumption method) on a first-in, first-out basis.

**H. Capital Assets**

Capital outlays are recorded as expenditures of the governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. In accordance with GASB Statement No. 34, a portion of infrastructure has been capitalized retroactively to 1980, with the remaining portion to be capitalized by fiscal year 2007. Depreciation is recorded on capital assets on a government-wide basis.

Capital outlays of the proprietary funds are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the fund's basis and the government-wide basis. Interest expense is capitalized on proprietary fund type assets acquired with tax-exempt debt. The amount of interest expense capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project against interest income earned on invested proceeds over the same period.

The City's capitalization policy threshold is \$5,000, or \$1,000 or more for office equipment. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated assets are valued at their estimated fair market value on the date donated. Assets acquired under capital leases are capitalized at the net present value of all lease payments.



NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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H. Capital Assets: (Continued)

The estimated useful lives of capital assets are as follows:

	<u>Years</u>
Buildings	40
Improvements other than buildings	20 - 50
Machinery and equipment	3 - 50

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

I. Compensated Absences

City employees are granted vacation and sick pay in varying amounts based on years of service. Employees may accumulate, subject to certain limitations, unused vacation and sick pay earned and, upon retirement, termination or death, may be compensated for certain amounts at specified rates. The cost of accumulated vacation and sick pay expected to be paid from future expendable resources is accounted for as a liability in the government-wide statements and proprietary fund statements.

J. Deferred Revenue

Deferred revenue in the governmental fund types consists of revenues that are measurable but not available for use during the current period. Property taxes receivable at June 30 not collected within 45 days after that date are reported as deferred revenue in the fund financial statements. In the business-type funds, connection fees received in advance of performance of the related service are recorded as deferred revenue.

K. Statement of Cash Flows

For purposes of the Statement of Cash Flows, all highly liquid investments (including restricted assets) with original purchased maturities of three months or less are considered to be cash equivalents.

L. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenditures/expenses. Actual results could differ from those estimates and assumptions.

M. Credit Risk

The assessed value of real estate and personal property for the City's ten largest taxpayers comprise 13.83% and 6.55% of the City's real estate and personal property tax base, respectively. Concentration of credit risk with respect to receivables is limited due to the large number of citizens comprising the City's taxpayer base.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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**N. Net Assets/Fund Equity**

Net assets in the government-wide financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other government or imposed by law through state statute.

In the fund financial statements, City funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2—DEPOSITS AND INVESTMENTS:

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**Deposits**

All cash of the primary government and its discretely presented component units is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act (a multiple financial institution collateral pool), Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and Loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments.

**Investments**

Statutes authorize the City to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

The City's investment policy authorizes the City to purchase investments consistent with obligations permitted by statutes of the Commonwealth of Virginia.

The policy requires that all investments shall be held by the City or purchased by a third-party custodial agent who may not otherwise be a counterparty to the investment transaction. At June 30, 2007 all of the City's investments are held in a bank's trust department in the City's name.

**Credit Risk of Debt Securities**

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following: Moody's Investors Service, Standard & Poor's or Fitch Investor's Service. Corporate notes, negotiable certificates of deposit and bank deposit notes maturing in less than one year must have short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investor Service.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

**Credit Risk of Debt Securities: (Continued)**

The City's rated debt investments as of June 30, 2007 were rated by Standard and Poor's and the ratings are presented below using Standard and Poor's rating scale.

<b>Locality's Rated Debt Investments' Values</b>					
<b>Rated Debt Investments</b>	<b>Fair Quality Ratings</b>				
	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>A1</b>	<b>Unrated</b>
U.S. Agency Securities	\$ 3,969,358	\$ -	\$ -	\$ -	\$ -
Total	<u>\$ 3,969,358</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Interest Rate Risk**

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

<b>Investment Maturities (in years)</b>					
<b>Investment Type</b>	<b>Fair Value</b>	<b>Less Than 1 Year</b>	<b>1-5 Years</b>	<b>6-10 Years</b>	<b>Greater Than 10 Years</b>
U.S. Agency Securities	\$ 3,969,358	\$ 3,969,358	\$ -	\$ -	\$ -
Total	<u>\$ 3,969,358</u>	<u>\$ 3,969,358</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 3—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

Interfund balances at June 30, 2007 were as follows:

	<b>Interfund receivable</b>	<b>Interfund payable</b>
Major funds:		
General	\$ 969,874	\$ 239,253
Virginia public assistance	239,253	-
Proprietary funds:		
Airport	-	969,874
Total	<u>\$ 1,209,127</u>	<u>\$ 1,209,127</u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

**NOTE 3—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:**

Interfund transfers for the year ended June 30, 2007 were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Major funds:		
General	\$ 2,009,891	\$ 4,087,175
Virginia public assistance	418,985	-
Capital projects	50,000	-
Debt service	3,178,870	-
Nonmajor governmental funds:		
Disaster recovery	53,607	-
Comprehensive services act	126,168	-
Economic development	244,749	68,188
Proprietary funds:		
Airport	82,984	-
Electric	-	2,009,891
Total	<u>\$ 6,165,254</u>	<u>\$ 6,165,254</u>

Transfers between major funds and other nonmajor governmental and proprietary funds were primarily to support operations of the funds.

**NOTE 4—RECEIVABLES:**

Receivables in the fund statements at June 30, 2007, are as follows:

*Primary Government*

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Business- type Activities</u>	<u>Total</u>
Real estate taxes	\$ 307,920	\$ -	\$ -	\$ 307,920
Personal property taxes	340,062	-	-	340,062
Other taxes	214,249	-	-	214,249
Accounts receivable	230,559	142,758	2,451,377	2,824,694
	<u>\$ 1,092,790</u>	<u>\$ 142,758</u>	<u>\$ 2,451,377</u>	<u>\$ 3,686,925</u>
Less-allowance for uncollectible accounts:				
Property taxes	(313,479)	-	-	(313,479)
Refuse collection	(24,882)	-	-	(24,882)
Utility service charges	-	-	(816,869)	(816,869)
Receivables - net	<u>\$ 754,429</u>	<u>\$ 142,758</u>	<u>\$ 1,634,508</u>	<u>\$ 2,531,695</u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

NOTE 5-DUE FROM OTHER GOVERNMENTS:

Due from other governments consists of the following at June 30, 2007:

*Primary Government*

	<u>General</u>	<u>Virginia Public Assistance</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Commonwealth of Virginia:</b>					
Sales tax	\$ 260,049	\$ -	\$ -	\$ -	\$ 260,049
Rolling stock tax	4,957	-	-	-	4,957
Recordation tax	4,542	-	-	-	4,542
Communication tax	96,541	-	-	-	96,541
Compensation Board	13,259	-	-	-	13,259
Comprehensive Services Act	-	-	-	74,500	74,500
Department of Social Services	-	35,517	-	-	35,517
T-21 Grant	-	-	210,365	-	210,365
<b>Total due from the Commonwealth of Virginia</b>	<u>\$ 379,348</u>	<u>\$ 35,517</u>	<u>\$ 210,365</u>	<u>\$ 74,500</u>	<u>\$ 699,730</u>
<b>Federal Government:</b>					
Department of Social Services	\$ -	\$ 66,518	\$ -	\$ -	\$ 66,518
Department of the Interior	-	-	747,645	-	747,645
Community development block grant	-	-	-	148,589	148,589
<b>Total due from federal government</b>	<u>\$ -</u>	<u>\$ 66,518</u>	<u>\$ 747,645</u>	<u>\$ 148,589</u>	<u>\$ 962,752</u>
<b>Local Governments:</b>					
Isle of Wight County-revenue sharing	\$ 1,107,450	\$ -	\$ -	\$ -	\$ 1,107,450
Southampton County-various taxes	22,521	-	-	-	22,521
<b>Total due from local governments</b>	<u>\$ 1,129,971</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,129,971</u>
<b>Total due from other governments</b>	<u>\$ 1,509,319</u>	<u>\$ 102,035</u>	<u>\$ 958,010</u>	<u>\$ 223,089</u>	<u>\$ 2,792,453</u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

NOTE 5—DUE FROM OTHER GOVERNMENTS: (CONTINUED)

*Component Units*

	<b>School Board</b>
Commonwealth of Virginia:	
State sales tax	\$ 190,268
Medicaid reimbursement	52,441
<b>Total due from the     Commonwealth of Virginia</b>	<b>\$ 242,709</b>
Federal Government:	
Title I	58,063
Title II, Part A	31,747
Special education cluster	74,323
Medicaid reimbursement	52,441
Other	37,956
<b>Total due from federal government</b>	<b>\$ 254,530</b>
<b>Total due from other governments</b>	<b>\$ 497,239</b>

NOTE 6—DUE FROM/PRIMARY GOVERNMENTS AND SCHOOLS COMPONENT UNITS:

Details of the receivables and payables between the primary government and component units at June 30, 2007, are as follows:

<b>Component Unit Receivable Fund</b>	<b>Primary Government Payable</b>	<b>Amount</b>
School General Fund	City General Fund	\$ 337,604
<b>Primary Government Receivable Fund</b>	<b>Component Unit Payable</b>	
City General Fund	Industrial Development Authority	\$ 339,486

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

NOTE 7—CAPITAL ASSETS:

A summary of changes in capital assets for the primary government follows:

**Governmental Activities**

	<u>Balance</u> <u>July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>July 30, 2007</u>
<b>Capital assets not being depreciated</b>				
Land	\$ 5,060,480	\$ -	\$ -	\$ 5,060,480
Construction in progress	459,215	1,236,344	31,253	1,664,306
<b>Total capital assets not being depreciated</b>	<u>\$ 5,519,695</u>	<u>\$ 1,236,344</u>	<u>\$ 31,253</u>	<u>\$ 6,724,786</u>
<b>Other capital assets</b>				
Buildings	\$ 18,189,363	\$ 176,908	\$ 2,104,277	\$ 16,261,994
Improvements other than buildings	2,596,873	-	-	2,596,873
Machinery and equipment	6,358,694	558,267	49,524	6,867,437
Infrastructure	11,888,346	461,426	-	12,349,772
<b>Total other capital assets</b>	<u>\$ 39,033,276</u>	<u>\$ 1,196,601</u>	<u>\$ 2,153,801</u>	<u>\$ 38,076,076</u>
<b>Less-accumulated depreciation</b>				
Buildings	\$ (2,759,530)	\$ (357,662)	\$ 394,503	\$ (2,722,689)
Improvements other than buildings	(853,489)	(125,026)	-	(978,515)
Machinery and equipment	(3,647,477)	(600,292)	49,380	(4,198,389)
Infrastructure	(7,971,716)	(451,093)	-	(8,422,809)
<b>Total accumulated depreciation</b>	<u>\$ (15,232,212)</u>	<u>\$ (1,534,073)</u>	<u>\$ 443,883</u>	<u>\$ (16,322,402)</u>
<b>Other capital assets - net</b>	<u>\$ 23,801,064</u>	<u>\$ (337,472)</u>	<u>\$ 1,709,918</u>	<u>\$ 21,753,674</u>
<b>Subtotal capital assets, net</b>	<u>\$ 29,320,759</u>	<u>\$ 898,872</u>	<u>\$ 1,741,171</u>	<u>\$ 28,478,460</u>
<b>Allocation of School Board</b>				
Buildings	\$ 4,888,086	\$ -	\$ -	\$ 4,888,086
<b>Less-accumulated depreciation</b>				
Buildings	(1,881,600)	(97,762)	-	(1,979,362)
<b>Total allocated to City</b>	<u>\$ 3,006,486</u>	<u>\$ (97,762)</u>	<u>\$ -</u>	<u>\$ 2,908,724</u>
<b>Total capital assets, governmental activities, net</b>	<u><u>\$ 32,327,245</u></u>	<u><u>\$ 801,110</u></u>	<u><u>\$ 1,741,171</u></u>	<u><u>\$ 31,387,184</u></u>

- 1) Legislation enacted during the year ended June 30, 2002, Section 15.2-1800.1 of the Code of Virginia 1950, as amended, has changed the reporting of local capital assets and related debt for financial statement purposes. Historically, debt incurred by local governments "on-behalf" of school boards was reported in the school board's discrete column along with the related capital assets. Under the law local governments have a "tenancy in common" with the school board whenever the locality incurs any financial obligation for any school property which is payable over more than one year. For financial reporting purposes, the legislation permits the locality to report the portion of school property related to any outstanding financial obligation eliminating any potential deficit from capitalizing assets financed with debt. The effect on the City of Franklin, Virginia for the year ended June 30, 2007, is that school financed assets in the amount of \$2,908,724 net are reported in the Primary Government for financial reporting purposes.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

NOTE 7-CAPITAL ASSETS: (Continued)

Depreciation expense for governmental activities was charged to functions of the primary government as follows:

General Governmental Administration	\$ 316,467
Public Safety	472,765
Public Works	575,602
Health and Welfare	67,611
Parks, Recreation, and Cultural	101,628
Education	97,762
	<u>\$ 1,631,835</u>

A summary of changes in capital assets for the enterprise funds follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2007</u>
<b>Capital assets not being depreciated</b>				
Construction in progress	\$ -	\$ 134,714	\$ -	\$ 134,714
<b>Total capital assets not being depreciated</b>	<u>\$ -</u>	<u>\$ 134,714</u>	<u>\$ -</u>	<u>\$ 134,714</u>
<b>Other capital assets</b>				
Buildings	\$ 1,686,803	\$ 191,848	\$ -	\$ 1,878,651
Other improvements	27,650,945	861,178	-	28,512,123
Machinery and equipment	2,887,173	91,056	-	2,978,229
<b>Total other capital assets</b>	<u>\$ 32,224,921</u>	<u>\$ 1,144,082</u>	<u>\$ -</u>	<u>\$ 33,369,003</u>
<b>Less - accumulated depreciation</b>				
Buildings	\$ (590,889)	\$ (185,612)	\$ -	\$ (776,501)
Other improvements	(15,368,488)	(1,423,883)	-	(16,792,371)
Machinery and equipment	(1,983,259)	(205,781)	-	(2,189,040)
<b>Total accumulated depreciation</b>	<u>\$ (17,942,636)</u>	<u>\$ (1,815,276)</u>	<u>\$ -</u>	<u>\$ (19,757,912)</u>
<b>Subtotal capital assets, net</b>	<u>\$ 14,282,285</u>	<u>\$ (671,194)</u>	<u>\$ -</u>	<u>\$ 13,611,091</u>
<b>Total capital assets, business-type activities, net</b>	<u>\$ 14,282,285</u>	<u>\$ (536,480)</u>	<u>\$ -</u>	<u>\$ 13,745,805</u>



CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

NOTE 7-CAPITAL ASSETS: (Continued)

A summary of changes in capital assets for the Component Unit - School Board follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2007</u>
<b>Other capital assets</b>				
Land improvement	\$ 84,406	\$ 36,935	\$ -	\$ 121,341
Buildings	12,619,790	9,850	-	12,629,640
Infrastructure	3,242,027	1,030,077	-	4,272,104
Machinery and equipment	2,893,553	292,843	60,631	3,125,765
	<u>\$ 18,839,776</u>	<u>\$ 1,369,705</u>	<u>\$ 60,631</u>	<u>\$ 20,148,850</u>
<b>Less - accumulated depreciation</b>				
Land improvements	\$ (65,595)	\$ (2,578)	\$ -	\$ (68,173)
Buildings	(4,336,243)	(251,168)	-	(4,587,411)
Infrastructure	(96,893)	(60,854)	-	(157,747)
Machinery and equipment	(1,625,752)	(253,667)	52,354	(1,827,065)
	<u>\$ (6,124,483)</u>	<u>\$ (568,267)</u>	<u>\$ 52,354</u>	<u>\$ (6,640,396)</u>
<b>Other capital assets - net</b>	<u>\$ 12,715,293</u>	<u>\$ 801,438</u>	<u>\$ 8,277</u>	<u>\$ 13,508,454</u>
<b>Allocation to City</b>				
Buildings	\$ (4,888,086)	\$ -	\$ -	\$ (4,888,086)
<b>Less - accumulated depreciation</b>				
Buildings	<u>1,881,600</u>	<u>97,762</u>	<u>-</u>	<u>1,979,362</u>
<b>Total allocated to City</b>	<u>\$ (3,006,486)</u>	<u>\$ 97,762</u>	<u>\$ -</u>	<u>\$ (2,908,724)</u>
<b>Total</b>	<u>\$ 9,708,807</u>	<u>\$ 899,200</u>	<u>\$ 8,277</u>	<u>\$ 10,599,730</u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

**NOTE 8—LONG-TERM OBLIGATIONS:**

Following is a summary of the changes in long-term liabilities for governmental activities and its Component Unit-School Board, respectively, for the year ended June 30, 2007.

	<u>Balance</u> <u>July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Due within</u> <u>one year</u>
<b>Governmental Obligations:</b>					
Primary Government:					
General obligation debt	\$ 17,280,290	\$ -	\$ 2,168,218	\$ 15,112,072	\$ 799,786
Literary loans payable	645,000	-	245,000	400,000	100,000
Notes payable	640,000	-	120,000	520,000	120,000
Capital lease obligations	236,395	-	110,787	125,608	67,768
Landfill postclosure/ corrective action	860,373	24,951	-	885,324	-
Compensated absences	643,977	521,954	509,402	656,529	656,529
<b>Total - Primary Government</b>	<b>\$ 20,306,035</b>	<b>\$ 546,905</b>	<b>\$ 3,153,407</b>	<b>\$ 17,699,533</b>	<b>\$ 1,744,083</b>
Component Unit-School Board:					
Compensated absences	\$ 279,141	\$ 18,894	\$ -	\$ 298,035	\$ 298,035
<b>Total School Board</b>	<b>\$ 279,141</b>	<b>\$ 18,894</b>	<b>\$ -</b>	<b>\$ 298,035</b>	<b>\$ 298,035</b>
<b>Total Governmental Obligations</b>	<b>\$ 20,585,176</b>	<b>\$ 565,799</b>	<b>\$ 3,153,407</b>	<b>\$ 17,997,568</b>	<b>\$ 2,042,118</b>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

General obligation debt of the governmental activities at June 30, 2007, is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Authorized and Issued	Outstanding June 30, 2007
General obligation bonds -					
Public Improvement and					
Refunding Series 1998A	03/05/98	01/15/12	3.60-4.60	\$ 1,679,916	\$ 1,035,570
Public Improvement Series 1998B	03/05/98	01/15/18	3.60-4.87	458,382	28,177
Public Improvement Series 2001B	10/01/01	01/15/24	3.00-5.00	3,105,000	2,735,000
Public Improvement Series 2001C	10/01/01	01/15/22	6.00	685,000	590,000
Public Improvement Series 2002	10/02/02	09/01/42	4.625	2,500,000	2,410,453
Public Improvement Series 1999A	05/28/99	07/15/19	3.970	2,041,330	1,090,582
Public Improvement Series 2003B	12/04/03	01/15/24	3.640	1,223,240	1,223,240
Public Improvement Series 2003C	12/04/03	01/15/27	5.550	565,000	565,000
Public Improvement Series 2004	12/01/04	12/01/14	3.640	310,000	255,810
Public Improvement Series 2006	01/13/06	01/15/26	3.820	1,541,000	1,488,600
Virginia General Obligation Qualified					
Zone Academy Bond, Series 2005	12/29/05	12/20/20	-	2,214,429	2,214,429
City of Franklin, Virginia School					
Bond Series 1992	11/01/92	07/15/12	4.90-6.35	285,325	105,277
Virginia Public School Authority					
Series 1995A	12/21/95	01/15/16	5.10-6.10	567,942	293,332
Virginia General Obligation Qualified					
Zone Academy Bond, Series 2003	12/31/03	12/31/17	-	1,000,000	1,000,000
Southampton county					
debt assumed*	01/01/96	06/30/14	N/A	N/A	76,602
<b>Total bonds payable</b>					<u>\$ 15,112,072</u>
Loans payable:					
Literary Fund loan-Middle School	03/15/91		2.000	2,000,000	\$ 400,000
<b>Total loans payable</b>					<u>\$ 400,000</u>
<b>Total general obligation debt</b>					<u>\$ 15,512,072</u>

\*On March 27, 1995, the City entered into an annexation agreement with Southampton County and agreed to assume 2.04% of the County's general obligation debt.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Note Payable

During 2006 the City purchased land and issued a note payable for \$640,000, payable in annual installments of \$120,000, including interest at 5% through 2011, with a balloon payment of \$160,000 in 2011. Principal payments are as follows:

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>
2008	\$ 120,000
2009	120,000
2010	120,000
2011	160,000
	<u>\$ 520,000</u>

Debt service on the preceding general obligation bonds payable for future fiscal years is as follows:

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>
2008	\$ 799,786	\$ 552,101
2009	780,798	517,974
2010	814,350	483,921
2011	835,597	448,351
2012	878,130	410,985
2013-2017	2,846,145	1,565,160
2018-2022	5,559,476	929,444
2023-2027	1,080,359	460,834
2028-2032	384,530	308,470
2033-2037	484,359	208,641
2038-2042	610,106	82,894
2043	38,436	300
	<u>\$ 15,112,072</u>	<u>\$ 5,969,075</u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Debt service on the preceding literary loans payable for future fiscal years is as follows:

Fiscal Year Ending June 30,	Principal	Interest
2008	\$ 100,000	\$ 8,000
2009	100,000	6,000
2010	100,000	4,000
2011	100,000	2,000
Total	\$ 400,000	\$ 20,000

Following is a schedule of capital lease obligations:

	Issue Date	Final Maturity	Interest Rate %	Authorized and Issued	Outstanding June 30, 2007
Police recorder	05/01/03	05/01/07	8.00	25,578	\$ 2,328
E-911 Equipment	09/05/02	10/05/07	5.90	92,424	5,305
E-911 Equipment	09/05/02	09/05/07	8.90	46,336	2,838
Copiers	02/27/04	02/27/09	8.90	19,602	8,278
Modular classrooms	04/01/03	10/01/07	2.81	117,331	24,436
Garbage Trucks	04/12/05	04/12/10	3.77	139,779	82,423
					\$ 125,608

Future minimum lease payments under capital leases with the present value (outstanding principal) of the net minimum lease payments as of June 30, 2007, are as follows:

Fiscal Year Ending June 30,	
2008	\$ 71,175
2009	34,225
2010	25,600
	131,000
Less-amount representing interest	(5,392)
Present value of net minimum lease payments	\$ 125,608

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

General Obligation Debt Limit

The Commonwealth of Virginia imposes a legal limit of 10% of the assessed valuation of taxable real property as the amount of general obligation borrowing which may be issued by the City. As of June 30, 2007, the City's aggregate general obligation indebtedness is approximately \$32.0 million less than the Commonwealth's limit as summarized in the following table:

<b>Total assessed value of taxed assessed value</b>		
Assessed value of real estate		\$ <u>567,081,965</u>
<b>Debt limit - 10% of total assessed value</b>		\$ 56,708,197
<b>Amount of debt applicable to debt limit</b>		
General obligation debt:		
Primary government	\$ 15,035,470	
Business-type	4,603,341	
Capital leases	188,677	
Virginia Resources Authority line of credit	716,235	
State Literary Fund loans - Component Unit - School Board	400,000	
Debt assumed - Southampton County - Primary government	76,602	
Note payable	520,000	21,540,325
<b>Legal debt margin</b>		\$ <u>35,167,872</u>

**Note:** The City was in compliance with all significant financial covenants contained in the various indentures at June 30, 2007.

Long-Term Liabilities - Business-Type Activities

Following is a summary of the changes in noncurrent liabilities of the business-type activities:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>	<u>Due within one year</u>
Bonds payable	\$ 5,155,724	\$ -	\$ 552,383	\$ 4,603,341	\$ 481,041
Capital lease obligation	83,771	-	20,702	63,069	21,496
Revolving loan	765,159	-	48,924	716,235	50,403
	<u>\$ 6,004,654</u>	<u>\$ -</u>	<u>\$ 622,009</u>	<u>\$ 5,382,645</u>	<u>\$ 552,940</u>
Compensated absences	125,815	133,445	127,407	131,853	131,853
	<u>\$ 6,130,469</u>	<u>\$ 133,445</u>	<u>\$ 749,416</u>	<u>\$ 5,514,498</u>	<u>\$ 684,793</u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Long-term obligations other than the capital lease of the business-type activities at June 30, 2007, are comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Authorized and Issued	Outstanding June 30, 2007
General Obligation Bonds -					
Public Improvement and Refunding					
Series 1998A	03/05/98	01/15/12	3.60-4.60	\$ 2,265,084	\$ 1,194,427
Public Improvement Series 1998B	03/05/98	01/15/08	3.60-4.87	2,876,618	1,596,823
Public Improvement Series 2001B	10/01/01	01/15/22	3.00-5.00	1,540,000	1,260,000
Public Improvement Series 2003B	12/03/03	01/15/24	3.64	616,760	552,091
<b>Total bonds payable</b>					<b>\$ 4,603,341</b>
Virginia Resources Authority -					
revolving loan	04/30/99	07/01/19	3.00	1,050,000	716,235
<b>Total bonds payable and line of credit</b>					<b>\$ 5,319,576</b>

Debt service on the business-type funds' bonds payable and line of credit are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2008	\$ 531,444	\$ 226,253
2009	484,362	205,070
2010	501,876	186,681
2011	526,772	164,701
2012	543,718	142,461
2013-2017	1,625,192	461,948
2018-2022	1,022,560	130,867
2023-2024	83,651	4,595
	<b>\$ 5,319,575</b>	<b>\$ 1,522,576</b>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

In April 2005, the City of Franklin, Virginia entered into a capital lease to purchase a truck, as follows:

<u>Description</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate %</u>	<u>Authorized and issued</u>	<u>Outstanding June 30, 2007</u>
Electric Truck	04/12/05	04/12/10	9.00 %	\$ 106,958	\$ 63,069

<u>Fiscal Year Ending June 30,</u>	
2008	\$ 23,505
2009	23,505
2010	19,585
	<u>66,595</u>
Less - amount representing interest	(3,526)
	<u>\$ 63,069</u>

Defeased Debt

On March 5, 1998, the City issued General Obligation Public Improvement Refunding Bonds, Series 1998A, of \$3,945,000 with an interest rate of 3.6% to 4.6% to advance refund a portion of the 1992 General Obligation Bonds with an interest rate of 5.2% to 6.4%. The 1992 bonds mature on January 15, 2012, were callable on January 15, 2002, and were recorded in part in the governmental funds and in part in the proprietary funds. The General Obligation Public Improvement Refunding Bonds Series 1998A were issued at a discount of \$79,691, and, after paying issuance costs of \$27,939, the net proceeds were \$3,837,370. The net proceeds of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the 1992 General Obligation Bonds are due. The advance refunding met the requirements of an in-substance debt defeasance and was recorded in the governmental activities (\$1,679,916) and in the business-type activities (\$2,265,084), corresponding to the debt defeased.

As a result of the advance refunding, the City reduced its debt service requirements for the 1992 bonds by \$265,474, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$203,548.



CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

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**NOTE 9—COMPENSATED ABSENCES:**

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City employees earn annual leave at the rate of 17 to 29 days per year depending on length of service. A maximum of 34 to 58 days of annual leave, depending on length of service, may be carried over to succeeding years and may be paid if not used prior to termination. The governmental and business-type activities have outstanding accrued vacation totaling \$656,529 and \$131,853, respectively, as of June 30, 2007.

City employees no longer earn sick leave. A new policy was adopted on January 1, 2002, in which all compensated absences are classified as annual leave. Any unused sick leave accrued as of January 1, 2002, was placed in a "sick leave bank" which can be used in the event of illness or injury in lieu of using paid time off days. Up to 3 days of banked sick leave may also be used annually for the sickness of an immediate family member. Employees who leave employment after 5 years or more of continuous service are paid for 25% of their sick leave balance (earned prior to January 1, 2002) based on their final rate of pay; however, the total amount of sick leave compensation may not exceed \$2,500. At June 30, 2007, accumulated unpaid sick leave for the governmental and business-type activities amounted to \$98,698 and \$3,469, respectively.

Twelve-month employees of the City of Franklin Public Schools earn annual vacation leave as follows:

<u>Years of Experience</u>	<u>Rate</u>	<u>Days Per Year</u>
1 - 7	1 day per month	12
8 - 12	1-1/4 days per month	15
13 and over	1-1/2 days per month	18

Vacation leave is accumulated monthly. Employees may accumulate leave not to exceed a total of 24 months unless authorized by the Superintendent. Upon resignation or retirement from employment with the school system, an employee will be paid for unused vacation leave up to 24 months.

All employees of the City of Franklin Public Schools earn one day per month of sick leave. Employees who retire under provisions of the Virginia Retirement System Act while employed by the City of Franklin Public Schools will receive severance compensation for unused sick leave at a rate of \$15 per day, not to exceed 125 days. The school system will accept transfer of up to 90-days accumulated unused sick leave earned by an employee while employed by another local school division or an institution accredited by the Virginia Department of Education.

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

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NOTE 10—DEFINED PENSION BENEFIT OBLIGATION:

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**Primary Government**

**A. Plan Description**

Name of Plan: Virginia Retirement System (VRS)  
Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan  
Administering Entity: Virginia Retirement System (System)

The City contributes to the Virginia Retirement System (VRS), a mixed agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System. All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service.

Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employers (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustment (COLA) in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950) as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System at P. O. Box 2500, Richmond, Virginia 23218-2500 or a copy of that report may be downloaded from the VRS website at <http://www.varetire.org/PDF/2006AnnuRept.pdf>.

**B. Funding Policy:**

**Primary Government:**

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. The employer has assumed this 5% member contribution. In addition, the County is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The County's contribution rate for the fiscal year ended June 30, 2007 was 9.69% of the annual covered payroll.

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

NOTE 10-DEFINED PENSION BENEFIT OBLIGATION: (CONTINUED)

Primary Government: (Continued)

**B. Funding Policy: (Continued)**

Discretely Presented Component Unit - School Board:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. The employer has assumed this 5% member contribution. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The School Board's contribution rate for the fiscal year ended June 30, 2007 was 7.70% of the annual covered payroll.

	<u>Primary Government</u>	<u>Discretely Presented Component Unit School Board</u>
	<u>City Retirement Plan</u>	<u>Non-Professional Retirement Plan</u>
Contribution rates for the year ended June 30, 2007:		
Employer	4.25%	5.00%
Plan members <sup>1</sup>	9.69%	7.70%
Annual pension cost	\$ 972,082	\$ 56,458
Contributions made	972,082	56,458
Actuarial valuation date	06/30/06	06/30/06
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percentage, open	Level percentage, open
Payroll growth rate	2.50%	2.50%
Remaining amortization period	20 years	20 years
Asset valuation method	Modified market	Modified market
Actuarial assumptions:		
Investment rate of return <sup>2</sup>	7.50%	7.50%
Projected salary increases <sup>2</sup>		
Non LEO Employees	3.75% to 5.60%	3.75% to 5.60%
LEO Employees	3.50% to 4.75%	3.50% to 4.75%
Cost-of-Living adjustments	2.50%	2.50%

<sup>1</sup>This member contribution has been assumed by the employer.

<sup>2</sup>Includes inflation at 2.5%.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

NOTE 10-DEFINED PENSION BENEFIT OBLIGATION: (CONTINUED)

**Primary Government: (Continued)**

**B. Funding Policy: (Continued)**

Primary Government:

For 2007, The City's annual pension cost of \$972,082 (does not include employee portion in the amount of \$330,865 which was assumed by the City) was equal to the City's actual contributions of \$972,082. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method.

**Discretely Presented Component - School Board:**

For 2007, the School Board's annual pension cost of \$56,458 (does not include employee portion in the amount of \$22,227 which was assumed by the School Board) was equal to the School Board's actual contribution of \$56,458. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method.

**Three-Year Trend Information**

	<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC) <sup>1</sup></u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
Primary Government:				
City	6/30/05	\$ 763,157	100%	\$ -
	6/30/06	948,808	100%	-
	6/30/07	972,082	100%	-
Discretely Presented Component Unit:				
School Board Non Professional	6/30/05	\$ 42,668	100%	\$ -
	6/30/06	45,483	100%	-
	6/30/07	56,458	100%	-

<sup>1</sup>Employer portion only

**PROFESSIONAL EMPLOYEES:**

**A. Plan Description**

The Franklin School Board contributes to the Virginia Retirement System (VRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System. VRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. That report may be obtained by writing to the System at P. O. Box 2500, Richmond, Virginia 23218-2500 or a copy of that report may be downloaded from the VRS website at <http://www.varetire.org/PDF/2006AnnuRept.pdf>.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

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NOTE 10–DEFINED PENSION BENEFIT OBLIGATION: (CONTINUED)

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Discretely Presented Component - School Board: (Continued)

**B. Funding Policy**

Plan members are required to contribute 5.0% of their annual covered salary and Franklin School Board is required to contribute at an actuarially determined rate. The current rate is 9.2% of annual covered payroll. The contribution requirements of plan members and the Franklin School Board are established and may be amended by the VRS Board of Trustees. The School Board's contributions to VRS for the years ending June 30, 2007, 2006, and 2005 were \$1,135,597, \$920,743, and \$802,593 respectively, equal to the required contributions for each year.

NOTE 11–JOINT VENTURES AND RELATED ORGANIZATIONS

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Blackwater Regional Library

The City participates in the operation of the Blackwater Regional Library that serves Southampton County, City of Franklin, Towns of Smithfield, Wakefield and Waverly and three neighboring counties. Separate financial statements are available from the Blackwater Regional Library.

Franklin-Southampton Economic Development Commission

The City participates in the operation of the Franklin-Southampton Economic Development Commission that operates in the City of Franklin and Southampton County. Separate financial statements are available from the Franklin-Southampton Economic Development Commission.

Western Tidewater Regional Jail Authority

The City participated in the construction of the facilities for the Western Tidewater Regional Jail Authority located in the City of Franklin. The jail became operational in July 1992. Operational funding surpluses and deficiencies are shared by member jurisdictions based on their ownership percentages. Separate financial statements are available from the Western Tidewater Regional Jail Authority.

Western Tidewater Community Services Board

The City participates in the operation of the Western Tidewater Community Services Board that serves the City of Franklin and the counties of Isle of Wight and Southampton. Separate financial statements are available from the Western Tidewater Community Services Board.

NOTE 12–CONTINGENT LIABILITIES:

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Federal programs in which the City participates were audited in accordance with the provisions of the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Pursuant to these provisions, certain programs were tested for compliance with applicable grant requirements. The Federal government may subject grant programs to additional compliance tests that may result in disallowed expenditures. In the opinion of management, future disallowances of current program expenditures, if any, would be immaterial.

**CITY OF FRANKLIN, VIRGINIA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)**

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**NOTE 12—CONTINGENT LIABILITIES: (CONTINUED)**

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General obligation bonds of \$4,603,341 have been recorded in the Enterprise Funds from which repayment is anticipated. The General Fund has a contingent liability for repayment of the aforementioned amounts should the Enterprise Funds be unable to pay.

The Airport Fund obtained a grant from the Department of Aviation, Commonwealth of Virginia, for rehabilitation of the airport entrance road. Grant provisions require the City to operate and maintain the airport as a public use facility for a period of twenty years from the final payment date of this grant. The final payment was received in September 1998. If the airport should cease to be used as a public use facility prior to September 2018, the City would be required to repay the Commonwealth a pro-rata share (computed monthly) of all monies received under this grant based on the period of operation and maintenance.

Health insurance coverage for full-time salaried employees of the City of Franklin and the Component Unit - School Board is obtained through Local Choice. This employee health insurance fund is an account established by the Commonwealth Treasury and maintained by the Department of Accounts within which contributions to the plan are deposited. The yearly premiums paid into the plan are adjusted for deviations in claim experience. Employees may choose to terminate participation in the health benefits program with 90 days notice. The local employer is responsible for any adverse experience adjustments that apply to the terminating year and any prior year within which the employer participated in the program. No estimate can be made as to possible future costs in excess of monthly premiums paid.

**NOTE 13—POST EMPLOYMENT BENEFITS:**

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In addition to the pension benefits described in the Retirement Plan footnote, the City provides post employment health care benefits, in accordance with City ordinances, to all employees who retire from the City in accordance with criteria listed in the Retirement Plan footnote. Currently, 16 retirees meet those eligibility requirements.

For those employees who terminate without retirement, health care benefits continue through the end of the month termination. At that time, the former employee has continuation rights to health insurance coverage under the Consolidated Omnibus Budget Reconciliation Act (COBRA) law of 1985.

During fiscal year 2003, retirees' health insurance was provided through a combination of a health maintenance organization (HMO) and indemnity coverage with the retiree selecting the type of coverage. The City paid for a major portion or all of the total health insurance cost for retirees depending on the coverage elected. The City paid for approximately 50% of the cost of coverage for dependents and surviving spouses eligible to participate in the group plan. The remainder of the premium was paid by the retirees for their dependents or by the surviving spouses for themselves. Expenditures for post employment health care are recognized as claims when premiums are paid. During the fiscal year ended June 30, 2007, the cost for health care benefits for retirees, dependents, and surviving spouses was \$60,075.

**CITY OF FRANKLIN, VIRGINIA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)**

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**NOTE 14—LANDFILL POSTCLOSURE CARE COSTS**

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State and federal laws and regulations require that the City perform certain maintenance and monitoring functions subsequent to closure of the City's landfill site. The City ceased accepting solid waste at the landfill in 1984 and completed initial closure measures in 1987. In letters dated January 13, 1995, and February 1, 1995, the Virginia Department of Environmental Quality informed the City the thirty-year postclosure period would begin in 1995 and the landfill closure had been completed in accordance to the Virginia Solid Waste Management Regulations, respectively. The original estimated total cost of the postclosure care of approximately \$132,608 was based on the expected costs of all equipment, facilities, and services required to monitor and maintain the landfill's postclosure care. However, the actual cost of postclosure care is higher due to inflation, changes in technology, and changes in applicable laws and regulations. The total reported as landfill postclosure care/corrective action cost liability in the amount of \$885,324 represents \$661,586 of postclosure care liability and \$223,738 of corrective action monitoring costs. The postclosure care costs and corrective action activities will continue through June 30, 2025 and June 30, 2014, respectively.

The City has demonstrated financial assurance requirements for postclosure care and corrective action costs through the submission of a Local Government Financial Test to the Virginia Department of Environmental Quality in accordance with Section 9VAC20-70 of the Virginia Administrative Code. The City intends to fund these costs from accumulated funds held in the general fund.

**NOTE 15—SURETY BONDS**

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Surety bonds of the City of Franklin are as follows:

Brenda B. Rickman	Commonwealth of Virginia Faithful		
Commissioner of Revenue	Performance of Duty Bond Plan	\$	3,000

**NOTE 16—ANNEXATIONS**

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Southampton County

The City entered into an annexation agreement with Southampton County (County) that provided for annexation in two phases. Annexation of the Phase I area, 3.93 square miles with 3.1% of the County's population per the 1980 census, was effective December 31, 1985. Annexation of the Phase II area, 0.73 square miles with 1.96% of the County's population, was effective December 31, 1995. As part of Phase I, the City agreed to pay to the County 3.798% of all the County's future obligations on general obligation debt existing at December 31, 1985. As part of Phase II, the City agreed to pay the County 2.04% of all the County's future obligations on general obligation debt existing at December 31, 1996. In addition, the City compensated the County for estimated loss of tax revenue through fiscal year 2007. The amount for 2006 was \$550,000, and the amount for 2007 was \$577,500. The City further agreed not to institute, participate in or support, directly or indirectly, any further annexation of Southampton County prior to December 31, 2010.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

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NOTE 16-ANNEXATIONS

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Southampton County: (Continued)

The City adopted a Revenue-Sharing Agreement with the County in January 1997. County residents approved this agreement in November 1997. The agreement was reviewed and recommended for Court approval by the Commission on Local Government of the Commonwealth of Virginia in January 1999. The Revenue Sharing Agreement covers approximately 17.1 square miles in Southampton County immediately contiguous to the City of Franklin. The agreement provides that the County will pay to the City on October 15<sup>th</sup> of each year, 30% of local tax revenue collected through June 30 of that year by industries and commercial establishments located within this area that are served by City water and sewer treatment. The City is required to provide potable water for non-residential use to industrial and commercial businesses in the designated area and receive wastewater from such businesses. The agreement is to remain in effect in perpetuity as adopted, subject to amendment by agreement of the parties, except if the City, or a City water and/or sewer authority decides to discontinue operation of both its water and sewer treatment systems, the agreement may be voided upon two years' notice to the County. The designated area, which includes all portions of the County immediately contiguous to the City, is immune from annexation as long as the agreement remains in force and the City exists as a political subdivision in the nature of a city. For the year ending June 30, 2007, the City received \$68,430 in tax revenue from the County under this agreement.

County of Isle of Wight

On March 11, 1986, the City entered into an agreement with the County of Isle of Wight whereby the City waived any and all of its rights and power to seek annexation of the County of Isle of Wight's territory within a designated area adjacent to the City. The agreement became effective when approved by the Court on April 13, 1987.

In return, the County of Isle of Wight agreed to share with the City all local tax revenues collected within the designated area using the following percentages:

<u>Fiscal Year</u>	
<u>Ending</u>	<u>Percentage</u>
1986	5%
1987	10%
1988 - 1995	20%
1996 and thereafter	17.23 % as adjusted by formula

The local revenues are payable to the City by the County of Isle of Wight on August 1, following the end of the fiscal year. During the year ended June 30, 2007, the City received \$1,000,000 from the County of Isle of Wight under this agreement for tax revenues collected for the year ended June 30, 2006. The City will receive approximately \$1,100,000 related to County of Isle of Wight tax revenues for the year ended June 30, 2007, which is included in intergovernmental receivables.



CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)

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**NOTE 17-RESTATEMENT:**

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The beginning net assets have been restated to properly report the landfill postclosure and corrective action liability as of June 30, 2006.

Additionally, beginning net assets of the governmental activities and beginning fund balance of the debt service fund have been restated to properly the report the cash balance of the QZAB sinking funds as of June 30, 2006.

	<u>Restatement</u>
Net Assets June 30, 2006	\$ 18,814,106
Restatement:	
Landfill postclosure and corrective action liability	(860,373)
QZAB payments to sinking fund reclassified to liability	(100,390)
QZAB sinking fund	<u>106,931</u>
Net Assets June 30, 2006, restated	<u>\$ 17,960,274</u>

	<u>Restatement</u>
Debt Service Fund Balance June 30, 2006	\$ -
Restatement:	
QZAB sinking fund	<u>106,931</u>
Debt Service Fund Balance June 30, 2006, restated	<u>\$ 106,931</u>

**NOTE 18-DEFICIT FUND BALANCE:**

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The following funds had a deficit fund balance at June 30, 2007:

<u>Fund</u>	<u>Amount</u>
Comprehensive Services Act	\$ (4,802)
Cobbtown Grant fund	(25,414)

**CITY OF FRANKLIN, VIRGINIA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 (CONTINUED)**

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**NOTE 19—ENVIRONMENTAL SETTLEMENT:**

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The City, among approximately 50 other entities, has reached an agreement with the United States of America (USA) as part of pending litigation for environmental violations at the Carolina Transformer Site. The City has accepted responsibility for .73% of an agreed upon settlement of \$9,900,571, or \$72,274. The proposed settlement provides that the USA will file a suit in Federal District Court on or about January 15, 2008 together with a signed Consent Decree setting forth the stated settlement amount and the City's percentage of responsibility. It is anticipated that the City will need to pay the liability on or about January 8, 2008.

**REQUIRED SUPPLEMENTARY INFORMATION**

Note to Required Supplementary Information:

Presented budgets were prepared in accordance with accounting principles generally accepted in the United States of America.

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## General Fund

## Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 6,154,024	\$ 6,272,225	\$ 5,996,085	\$ (276,140)
Other local taxes	5,392,313	5,522,313	5,598,044	75,731
Permits, privilege fees, and regulatory licenses	125,460	125,460	84,958	(40,502)
Fines and forfeitures	62,900	62,900	67,106	4,206
Revenue from the use of money and property	255,108	281,965	283,298	1,333
Charges for services	1,898,332	2,020,130	1,945,295	(74,835)
Miscellaneous	1,313,942	1,319,907	1,322,250	2,343
Recovered costs	30,000	36,201	60,409	24,208
Intergovernmental revenues:				
Commonwealth	3,134,802	3,201,300	3,149,115	(52,185)
Federal	-	410,892	419,896	9,004
Total revenues	\$ 18,366,881	\$ 19,253,293	\$ 18,926,456	\$ (326,837)
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 2,331,811	\$ 2,394,552	\$ 2,166,082	\$ 228,470
Judicial administration	238,072	283,547	277,318	6,229
Public safety	4,616,855	5,194,353	5,059,598	134,755
Public works	4,323,357	4,681,731	4,030,077	651,654
Health and welfare	272,831	272,831	227,678	45,153
Education	4,472,469	4,472,469	4,472,469	-
Parks, recreation, and cultural	937,672	958,631	942,910	15,721
Community development	779,785	839,523	771,928	67,595
Nondepartmental	5,106	6,295	19,502	(13,207)
Total expenditures	\$ 17,977,958	\$ 19,103,932	\$ 17,967,562	\$ 1,136,370
Excess (deficiency) of revenues over (under) expenditures	\$ 388,923	\$ 149,361	\$ 958,894	\$ 809,533
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 2,009,891	\$ 2,009,891	\$ 2,009,891	\$ -
Transfers out	(2,398,814)	(4,297,298)	(4,087,175)	210,123
Sale of capital assets	-	1,577,117	1,577,117	-
Total other financing sources and uses	\$ (388,923)	\$ (710,290)	\$ (500,167)	\$ 210,123
Net change in fund balances	\$ -	\$ (560,929)	\$ 458,727	\$ 1,019,656
Fund balances - beginning	-	560,929	2,635,891	2,074,962
Fund balances - ending	\$ -	\$ -	\$ 3,094,618	\$ 3,094,618

Virginia Public Assistance Fund  
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental revenues:				
Commonwealth	\$ 379,476	\$ 366,732	\$ 371,132	\$ 4,400
Federal	1,138,427	1,100,194	1,117,944	17,750
Total revenues	<u>\$ 1,517,903</u>	<u>\$ 1,466,926</u>	<u>\$ 1,489,076</u>	<u>\$ 22,150</u>
<b>EXPENDITURES</b>				
Current:				
Health and welfare	\$ 1,936,888	\$ 1,947,402	\$ 1,732,976	\$ 214,426
Total expenditures	<u>\$ 1,936,888</u>	<u>\$ 1,947,402</u>	<u>\$ 1,732,976</u>	<u>\$ 214,426</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (418,985)</u>	<u>\$ (480,476)</u>	<u>\$ (243,900)</u>	<u>\$ 236,576</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 418,985	\$ 418,985	\$ 418,985	\$ -
Total other financing sources and uses	<u>\$ 418,985</u>	<u>\$ 418,985</u>	<u>\$ 418,985</u>	<u>\$ -</u>
Net change in fund balances	\$ -	\$ (61,491)	\$ 175,085	\$ 236,576
Fund balances - beginning	-	61,491	339,790	278,299
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 514,875</u>	<u>\$ 514,875</u>

Required Supplementary Information  
 Schedule of Pension Funding Progress for the Virginia Retirement System  
 Last Three Fiscal Years

City:

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded)	Funded Ratio (d) (a) / (b)	Annual Annual Covered Payroll (e)	UAAL
			Actuarial Accrued (UAAL) (c) (b) - (a)			as % of Payroll (f) (c) / (e)
6/30/2006	\$ 18,714,758	\$ 21,253,617	\$ 2,538,859	88.05%	\$ 6,430,170	39.48%
6/30/2005	17,477,295	21,585,589	4,108,294	80.97%	6,084,135	67.52%
6/30/2004	16,892,347	20,161,444	3,269,097	83.79%	5,937,906	55.05%

School Board Non-Professionals:

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded)	Funded Ratio (d) (a) / (b)	Annual Annual Covered Payroll (e)	UAAL
			Actuarial Accrued (UAAL) (c) (b) - (a)			as % of Payroll (f) (c) / (e)
6/30/2006	\$ 1,035,295	\$ 1,189,386	\$ 154,091	87.04%	\$ 431,788	35.69%
6/30/2005	975,761	1,258,032	282,271	77.56%	591,124	47.75%
6/30/2004	935,101	979,963	44,862	95.42%	384,697	11.66%

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**OTHER SUPPLEMENTARY INFORMATION**

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## Primary Government

Combining Balance Sheet  
 Nonmajor Governmental Funds  
 June 30, 2007

	Special Revenue Funds	Permanent Funds	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 720,076	\$ 129,520	\$ 849,596
Receivables (net of allowance for uncollectibles):			
Accounts receivable	139,210	3,548	142,758
Due from other governmental units	223,089	-	223,089
Total assets	<u>\$ 1,082,375</u>	<u>\$ 133,068</u>	<u>\$ 1,215,443</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Reconciled overdraft	\$ 354,602	\$ -	\$ 354,602
Accounts payable	43,361	-	43,361
Deposits held in escrow	20,240	-	20,240
Total liabilities	<u>\$ 418,203</u>	<u>\$ -</u>	<u>\$ 418,203</u>
Fund balances:			
Unreserved:			
Designated for subsequent expenditure	\$ -	\$ 133,068	\$ 133,068
Undesignated	664,172	-	664,172
Total fund balances	<u>\$ 664,172</u>	<u>\$ 133,068</u>	<u>\$ 797,240</u>
Total liabilities and fund balances	<u>\$ 1,082,375</u>	<u>\$ 133,068</u>	<u>\$ 1,215,443</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Nonmajor Governmental Funds  
 For the Year Ended June 30, 2007

	Special Revenue Funds	Permanent Funds	Total Nonmajor Governmental Funds
<b>REVENUES</b>			
Revenue from the use of money and property	\$ 166,098	\$ 1,389	\$ 167,487
Miscellaneous	720,848	-	720,848
Recovered costs	713,493	-	713,493
Intergovernmental revenues:			
Commonwealth	177,099	-	177,099
Federal	148,589	-	148,589
Total revenues	<u>\$ 1,926,127</u>	<u>\$ 1,389</u>	<u>\$ 1,927,516</u>
<b>EXPENDITURES</b>			
Current:			
General government administration	\$ 4,383	\$ -	\$ 4,383
Public safety	120,311	-	120,311
Public works	699,756	-	699,756
Health and welfare	434,997	-	434,997
Parks, recreation, and cultural	35,199	-	35,199
Community development	896,371	-	896,371
Nondepartmental	-	1,367	1,367
Total expenditures	<u>\$ 2,191,017</u>	<u>\$ 1,367</u>	<u>\$ 2,192,384</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (264,890)</u>	<u>\$ 22</u>	<u>\$ (264,868)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	\$ 424,524	\$ -	\$ 424,524
Transfers out	(68,188)	-	(68,188)
Total other financing sources and uses	<u>\$ 356,336</u>	<u>\$ -</u>	<u>\$ 356,336</u>
Net change in fund balances	\$ 91,446	\$ 22	\$ 91,468
Fund balances - beginning	572,726	133,046	705,772
Fund balances - ending	<u>\$ 664,172</u>	<u>\$ 133,068</u>	<u>\$ 797,240</u>

CITY OF FRANKLIN, VIRGINIA

Combining Balance Sheet  
 Nonmajor Special Revenue Funds  
 June 30, 2007

	Disaster Recovery Fund	Comprehensive Services Act Fund	Regional Fire Training Grounds Fund	Foundation Grants Fund	Community Development Block Grant Fund	Community Development Downtown Grant Fund
<b>ASSETS</b>						
Cash and cash equivalents	\$ 13,080	\$ -	\$ 5,757	\$ 185,759	\$ 132,543	\$ 24,103
Receivables (net of allowance for uncollectibles):						
Accounts receivable	-	-	-	-	-	139,210
Due from other governmental units	-	74,500	-	-	-	-
Total assets	<u>\$ 13,080</u>	<u>\$ 74,500</u>	<u>\$ 5,757</u>	<u>\$ 185,759</u>	<u>\$ 132,543</u>	<u>\$ 163,313</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Reconciled overdraft	\$ -	\$ 55,106	\$ -	\$ 26,437	\$ -	\$ 101,633
Accounts payable	13,080	24,196	-	-	-	-
Deposits held in escrow	-	-	-	-	-	20,240
Total liabilities	<u>\$ 13,080</u>	<u>\$ 79,302</u>	<u>\$ -</u>	<u>\$ 26,437</u>	<u>\$ -</u>	<u>\$ 121,873</u>
Fund balances:						
Unreserved:						
Undesignated	-	(4,802)	5,757	159,322	132,543	41,440
Total fund balances	<u>\$ -</u>	<u>\$ (4,802)</u>	<u>\$ 5,757</u>	<u>\$ 159,322</u>	<u>\$ 132,543</u>	<u>\$ 41,440</u>
Total liabilities and fund balances	<u>\$ 13,080</u>	<u>\$ 74,500</u>	<u>\$ 5,757</u>	<u>\$ 185,759</u>	<u>\$ 132,543</u>	<u>\$ 163,313</u>

Western Tidewater Home Consortium Fund	Cobbtown Grant Fund	Police Federal Forfeiture Fund	Police State Forfeiture Fund	Police Evidence Holding Fund	Camp Homestead Fund	Economic Development Fund	Willie Camp Younts Fund	Fire and Rescue Volunteers Fund	Total
\$ 5,102	\$ -	\$ 17,100	\$ 5,162	\$ 1,477	\$ 155,557	\$ 115,222	\$ 51,502	\$ 7,712	\$ 720,076
-	-	-	-	-	-	-	-	-	139,210
-	148,589	-	-	-	-	-	-	-	223,089
<u>\$ 5,102</u>	<u>\$ 148,589</u>	<u>\$ 17,100</u>	<u>\$ 5,162</u>	<u>\$ 1,477</u>	<u>\$ 155,557</u>	<u>\$ 115,222</u>	<u>\$ 51,502</u>	<u>\$ 7,712</u>	<u>\$ 1,082,375</u>
\$ -	\$ 171,426	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 354,602
300	2,577	-	-	-	-	3,208	-	-	43,361
-	-	-	-	-	-	-	-	-	20,240
<u>\$ 300</u>	<u>\$ 174,003</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,208</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 418,203</u>
4,802	(25,414)	17,100	5,162	1,477	155,557	112,014	51,502	7,712	664,172
<u>\$ 4,802</u>	<u>\$ (25,414)</u>	<u>\$ 17,100</u>	<u>\$ 5,162</u>	<u>\$ 1,477</u>	<u>\$ 155,557</u>	<u>\$ 112,014</u>	<u>\$ 51,502</u>	<u>\$ 7,712</u>	<u>\$ 664,172</u>
<u>\$ 5,102</u>	<u>\$ 148,589</u>	<u>\$ 17,100</u>	<u>\$ 5,162</u>	<u>\$ 1,477</u>	<u>\$ 155,557</u>	<u>\$ 115,222</u>	<u>\$ 51,502</u>	<u>\$ 7,712</u>	<u>\$ 1,082,375</u>

CITY OF FRANKLIN, VIRGINIA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Nonmajor Special Revenue Funds  
 For the Year Ended June 30, 2007

	Disaster Recovery Fund	Comprehensive Services Act Fund	Regional Fire Training Grounds Fund	Foundation Grants Fund	Community Development Block Grant Fund	Community Development Downtown Grant Fund
<b>REVENUES</b>						
Revenue from the use of money and property	\$ -	\$ -	\$ 206	\$ 8,044	\$ 3,165	\$ -
Miscellaneous	-	-	-	651,975	-	-
Recovered costs	709,762	-	3,731	-	-	-
Intergovernmental revenues:						
Commonwealth	-	170,137	-	-	-	-
Federal	-	-	-	-	-	-
Total revenues	<u>\$ 709,762</u>	<u>\$ 170,137</u>	<u>\$ 3,937</u>	<u>\$ 660,019</u>	<u>\$ 3,165</u>	<u>\$ -</u>
<b>EXPENDITURES</b>						
Current:						
General government administration	\$ -	\$ -	\$ -	\$ 4,383	\$ -	\$ -
Public safety	29,723	-	1,185	70,895	-	-
Public works	599,756	-	-	100,000	-	-
Health and welfare	133,890	301,107	-	-	-	-
Parks, recreation, and cultural	-	-	-	28,136	-	-
Community development	-	-	-	438,308	-	9,771
Total expenditures	<u>\$ 763,369</u>	<u>\$ 301,107</u>	<u>\$ 1,185</u>	<u>\$ 641,722</u>	<u>\$ -</u>	<u>\$ 9,771</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (53,607)</u>	<u>\$ (130,970)</u>	<u>\$ 2,752</u>	<u>\$ 18,297</u>	<u>\$ 3,165</u>	<u>\$ (9,771)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	\$ 53,607	\$ 126,168	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	-	-	-	-
Total other financing sources and uses	<u>\$ 53,607</u>	<u>\$ 126,168</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balances	\$ -	\$ (4,802)	\$ 2,752	\$ 18,297	\$ 3,165	\$ (9,771)
Fund balances - beginning	-	-	3,005	141,025	129,378	51,211
Fund balances - ending	<u>\$ -</u>	<u>\$ (4,802)</u>	<u>\$ 5,757</u>	<u>\$ 159,322</u>	<u>\$ 132,543</u>	<u>\$ 41,440</u>



Western Tidewater Home Consortium Fund	Cobbtown Grant Fund	Police Federal Forfeiture Fund	Police State Forfeiture Fund	Police Evidence Holding Fund	Camp Homestead Fund	Economic Development Fund	Willie Camp Younts Fund	Fire and Rescue Volunteers Fund	Total
\$ -	\$ -	\$ 1	\$ 4	\$ -	\$ 7,010	\$ 146,315	\$ 1,346	\$ 7	\$ 166,098
21,337	19,837	16,353	7,114	-	-	-	-	4,232	720,848
-	-	-	-	-	-	-	-	-	713,493
6,962	-	-	-	-	-	-	-	-	177,099
-	148,589	-	-	-	-	-	-	-	148,589
<u>\$ 28,299</u>	<u>\$ 168,426</u>	<u>\$ 16,354</u>	<u>\$ 7,118</u>	<u>\$ -</u>	<u>\$ 7,010</u>	<u>\$ 146,315</u>	<u>\$ 1,346</u>	<u>\$ 4,239</u>	<u>\$ 1,926,127</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,383
-	-	-	7,726	-	-	-	-	10,782	120,311
-	-	-	-	-	-	-	-	-	699,756
-	-	-	-	-	-	-	-	-	434,997
-	-	-	-	-	4,393	-	2,670	-	35,199
23,097	147,892	-	-	-	-	277,303	-	-	896,371
<u>\$ 23,097</u>	<u>\$ 147,892</u>	<u>\$ -</u>	<u>\$ 7,726</u>	<u>\$ -</u>	<u>\$ 4,393</u>	<u>\$ 277,303</u>	<u>\$ 2,670</u>	<u>\$ 10,782</u>	<u>\$ 2,191,017</u>
<u>\$ 5,202</u>	<u>\$ 20,534</u>	<u>\$ 16,354</u>	<u>\$ (608)</u>	<u>\$ -</u>	<u>\$ 2,617</u>	<u>\$ (130,988)</u>	<u>\$ (1,324)</u>	<u>\$ (6,543)</u>	<u>\$ (264,890)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 244,749	\$ -	\$ -	\$ 424,524
-	-	-	-	-	-	(68,188)	-	-	(68,188)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 176,561</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 356,336</u>
\$ 5,202	\$ 20,534	\$ 16,354	\$ (608)	\$ -	\$ 2,617	\$ 45,573	\$ (1,324)	\$ (6,543)	\$ 91,446
(400)	(45,948)	746	5,770	1,477	152,940	66,441	52,826	14,255	572,726
<u>\$ 4,802</u>	<u>\$ (25,414)</u>	<u>\$ 17,100</u>	<u>\$ 5,162</u>	<u>\$ 1,477</u>	<u>\$ 155,557</u>	<u>\$ 112,014</u>	<u>\$ 51,502</u>	<u>\$ 7,712</u>	<u>\$ 664,172</u>

Combining Balance Sheet  
 Nonmajor Permanent Funds  
 June 30, 2007

	Southview Cemetery Trust Fund	Employee Emergency Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 3,915	\$ 10,746	\$ 102,091	\$ 12,768	\$ 129,520
Receivables (net of allowance for uncollectibles):					
Accounts receivable	-	3,548	-	-	3,548
Total assets	<u>\$ 3,915</u>	<u>\$ 14,294</u>	<u>\$ 102,091</u>	<u>\$ 12,768</u>	<u>\$ 133,068</u>
<b>FUND BALANCES</b>					
Fund balances:					
Unreserved:					
Designated for subsequent expenditure	\$ 3,915	\$ 14,294	\$ 102,091	\$ 12,768	\$ 133,068
Total fund balances	<u>\$ 3,915</u>	<u>\$ 14,294</u>	<u>\$ 102,091</u>	<u>\$ 12,768</u>	<u>\$ 133,068</u>
Total liabilities and fund balances	<u>\$ 3,915</u>	<u>\$ 14,294</u>	<u>\$ 102,091</u>	<u>\$ 12,768</u>	<u>\$ 133,068</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Nonmajor Permanent Funds  
 For the Year Ended June 30, 2007

	Southview Cemetery Trust Fund	Employee Emergency Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund	Total
<b>REVENUES</b>					
Revenue from the use of money and property	\$ -	\$ 192	\$ 778	\$ 419	\$ 1,389
Total revenues	<u>\$ -</u>	<u>\$ 192</u>	<u>\$ 778</u>	<u>\$ 419</u>	<u>\$ 1,389</u>
<b>EXPENDITURES</b>					
Current:					
Nondepartmental	\$ 67	\$ 1,300	\$ -	\$ -	\$ 1,367
Total expenditures	<u>\$ 67</u>	<u>\$ 1,300</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,367</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (67)</u>	<u>\$ (1,108)</u>	<u>\$ 778</u>	<u>\$ 419</u>	<u>\$ 22</u>
Net change in fund balances	\$ (67)	\$ (1,108)	\$ 778	\$ 419	\$ 22
Fund balances - beginning	3,982	15,402	101,313	12,349	133,046
Fund balances - ending	<u>\$ 3,915</u>	<u>\$ 14,294</u>	<u>\$ 102,091</u>	<u>\$ 12,768</u>	<u>\$ 133,068</u>

Combining Statement of Fiduciary Net Assets  
 Agency Funds  
 June 30, 2007

	Agency Funds					Total
	Special Welfare Fund	Special Welfare - SSI Fund	Flexible Spending Fund	Franklin - Southampton Economic Development Fund	Early Childhood Comission Fund	
<b>ASSETS</b>						
Cash and cash equivalents	\$ 8,062	\$ 22,425	\$ 7,738	\$ 126,944	\$ 32,684	\$ 197,853
Total assets	<u>\$ 8,062</u>	<u>\$ 22,425</u>	<u>\$ 7,738</u>	<u>\$ 126,944</u>	<u>\$ 32,684</u>	<u>\$ 197,853</u>
<b>LIABILITIES</b>						
Amounts held for others	\$ 8,062	\$ 22,425	\$ 7,738	\$ 126,944	\$ 32,684	\$ 197,853
Total liabilities	<u>\$ 8,062</u>	<u>\$ 22,425</u>	<u>\$ 7,738</u>	<u>\$ 126,944</u>	<u>\$ 32,684</u>	<u>\$ 197,853</u>

Combining Statement of Changes in Assets and Liabilities  
Agency Funds  
For the Year Ended June 30, 2007

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Special Welfare Fund:</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 15,426	\$ 4,044	\$ 11,408	\$ 8,062
Total assets	<u>\$ 15,426</u>	<u>\$ 4,044</u>	<u>\$ 11,408</u>	<u>\$ 8,062</u>
<b>LIABILITIES</b>				
Amounts held for others	\$ 15,426	\$ 4,044	\$ 11,408	\$ 8,062
Total liabilities	<u>\$ 15,426</u>	<u>\$ 4,044</u>	<u>\$ 11,408</u>	<u>\$ 8,062</u>
<b>Sepecial Welfare - SSI Fund</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 26,333	\$ 9,427	\$ 13,335	\$ 22,425
Total assets	<u>\$ 26,333</u>	<u>\$ 9,427</u>	<u>\$ 13,335</u>	<u>\$ 22,425</u>
<b>LIABILITIES</b>				
Amounts held for others	\$ 26,333	\$ 9,427	\$ 13,335	\$ 22,425
Total liabilities	<u>\$ 26,333</u>	<u>\$ 9,427</u>	<u>\$ 13,335</u>	<u>\$ 22,425</u>
<b>Flexible Spending Fund:</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,662	\$ 14,700	\$ 11,624	\$ 7,738
Total assets	<u>\$ 4,662</u>	<u>\$ 14,700</u>	<u>\$ 11,624</u>	<u>\$ 7,738</u>
<b>LIABILITIES</b>				
Amounts held for others	\$ 4,662	\$ 14,700	\$ 11,624	\$ 7,738
Total liabilities	<u>\$ 4,662</u>	<u>\$ 14,700</u>	<u>\$ 11,624</u>	<u>\$ 7,738</u>
<b>Franklin - Southampton Economic Development Fund</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 122,507	\$ 4,437	\$ -	\$ 126,944
Total assets	<u>\$ 122,507</u>	<u>\$ 4,437</u>	<u>\$ -</u>	<u>\$ 126,944</u>
<b>LIABILITIES</b>				
Amounts held for others	\$ 122,507	\$ 4,437	\$ -	\$ 126,944
Total liabilities	<u>\$ 122,507</u>	<u>\$ 4,437</u>	<u>\$ -</u>	<u>\$ 126,944</u>
<b>Early Childhood Commission Fund</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 5,000	\$ 28,000	\$ 316	\$ 32,684
Total assets	<u>\$ 5,000</u>	<u>\$ 28,000</u>	<u>\$ 316</u>	<u>\$ 32,684</u>
<b>LIABILITIES</b>				
Amounts held for others	\$ 5,000	\$ 28,000	\$ 316	\$ 32,684
Total liabilities	<u>\$ 5,000</u>	<u>\$ 28,000</u>	<u>\$ 316</u>	<u>\$ 32,684</u>
<b>Totals - All Agency Funds:</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 173,928	\$ 60,608	\$ 36,683	\$ 197,853
Total assets	<u>\$ 173,928</u>	<u>\$ 60,608</u>	<u>\$ 36,683</u>	<u>\$ 197,853</u>
<b>LIABILITIES</b>				
Amounts held for others	\$ 173,928	\$ 60,608	\$ 36,683	\$ 197,853
Total liabilities	<u>\$ 173,928</u>	<u>\$ 60,608</u>	<u>\$ 36,683</u>	<u>\$ 197,853</u>

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**Discretely Presented Component Unit**

**- School Board -**

Combining Balance Sheet  
 Discretely Presented Component Unit - School Board  
 June 30, 2007

	School Operating Fund	Cafeteria Fund	Textbook Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 210,524	\$ 76,681	\$ 127,889	\$ 415,094
Due from other funds	41,000	-	-	41,000
Due from primary government	337,604	-	-	337,604
Due from other governmental units	497,239	-	-	497,239
Inventories	-	8,689	-	8,689
Prepaid items	368,651	-	-	368,651
Total assets	<u>\$ 1,455,018</u>	<u>\$ 85,370</u>	<u>\$ 127,889</u>	<u>\$ 1,668,277</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 52,430	\$ 8,199	\$ -	\$ 60,629
Accrued liabilities	1,029,871	57,099	-	1,086,970
Due to other funds	-	41,000	-	41,000
Total liabilities	<u>\$ 1,082,301</u>	<u>\$ 106,298</u>	<u>\$ -</u>	<u>\$ 1,188,599</u>
Fund balances:				
Unreserved:				
Designated for subsequent expenditure	\$ 372,717	\$ (20,928)	\$ 127,889	\$ 479,678
Total fund balances	<u>372,717</u>	<u>(20,928)</u>	<u>127,889</u>	<u>479,678</u>
Total liabilities and fund balances	<u>\$ 1,455,018</u>	<u>\$ 85,370</u>	<u>\$ 127,889</u>	<u>\$ 1,668,277</u>

Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) are different because:

Total fund balances per above 479,678

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Capital assets	\$ 15,260,764	
Less: accumulated depreciation	<u>(4,661,034)</u>	10,599,730

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Compensated absences	<u>(298,035)</u>
Net assets of governmental activities	<u>\$ 10,781,373</u>



Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Governmental Funds - Discretely Presented Component Unit - School Board  
 For the Year Ended June 30, 2007

	School Operating Fund	Cafeteria Fund	Textbook Fund	Total Governmental Funds
<b>REVENUES</b>				
Revenue from the use of money and property	\$ 2,371	\$ 31	\$ 77	\$ 2,479
Charges for services	17,122	145,413	1,640	164,175
Miscellaneous	124,777	-	-	124,777
Recovered costs	58,862	-	-	58,862
Intergovernmental revenues:				
Local government	4,472,469	-	-	4,472,469
Commonwealth	9,194,994	7,691	-	9,202,685
Federal	1,671,640	513,174	-	2,184,814
Total revenues	<u>\$ 15,542,235</u>	<u>\$ 666,309</u>	<u>\$ 1,717</u>	<u>\$ 16,210,261</u>
<b>EXPENDITURES</b>				
Current:				
Education:				
Instruction	\$ 11,159,630	\$ -	\$ 33,797	11,193,427
Administration, attendance and health	1,147,953	-	-	1,147,953
Transportation	529,613	-	-	529,613
Operations and maintenance	1,347,907	-	-	1,347,907
Technology	780,624	-	-	780,624
Food services	-	649,159	-	649,159
Total expenditures	<u>\$ 14,965,727</u>	<u>\$ 649,159</u>	<u>\$ 33,797</u>	<u>\$ 15,648,683</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 576,508</u>	<u>\$ 17,150</u>	<u>\$ (32,080)</u>	<u>\$ 561,578</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ -	\$ -	\$ 132,353	\$ 132,353
Transfers out	(132,353)	-	-	(132,353)
Total other financing sources and uses	<u>\$ (132,353)</u>	<u>\$ -</u>	<u>\$ 132,353</u>	<u>\$ -</u>
Net change in fund balances	\$ 444,155	\$ 17,150	\$ 100,273	\$ 561,578
Fund balances - beginning	(71,438)	(38,078)	27,616	(81,900)
Fund balances - ending	<u>\$ 372,717</u>	<u>\$ (20,928)</u>	<u>\$ 127,889</u>	<u>\$ 479,678</u>

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds - per above \$ 561,578

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is a computation of these differences.

Capital asset additions	1,369,705	
Depreciation expense	(470,505)	899,200

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets. (8,277)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. (18,894)

Change in net assets of governmental activities \$ 1,433,607

CITY OF FRANKLIN, VIRGINIA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
 Discretely Presented Component Unit - School Board  
 For the Year Ended June 30, 2007

	School Operating Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b>REVENUES</b>				
Revenue from the use of money and property	\$ 2,200	\$ 2,371	\$ 2,371	\$ -
Charges for services	14,000	9,481	17,122	7,641
Miscellaneous	64,400	126,523	124,777	(1,746)
Recovered costs	75,000	65,301	58,862	(6,439)
Intergovernmental revenues:				
Local government	4,472,469	4,472,469	4,472,469	-
Commonwealth	9,136,746	9,277,297	9,194,994	(82,303)
Federal	5,000	1,975,281	1,671,640	(303,641)
Total revenues	<u>\$ 13,769,815</u>	<u>\$ 15,928,723</u>	<u>\$ 15,542,235</u>	<u>\$ (386,488)</u>
<b>EXPENDITURES</b>				
Current:				
Education:				
Instruction	\$ 10,039,414	\$ 11,873,281	\$ 11,159,630	713,651
Administration, attendance and health	1,066,940	1,147,726	1,147,953	\$ (227)
Transportation	516,652	531,377	529,613	1,764
Operations and maintenance	1,430,829	1,346,458	1,347,907	(1,449)
Technology	715,980	780,624	780,624	-
Food services	-	-	-	-
Total expenditures	<u>\$ 13,769,815</u>	<u>\$ 15,679,466</u>	<u>\$ 14,965,727</u>	<u>\$ 713,739</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ 249,257</u>	<u>\$ 576,508</u>	<u>\$ 327,251</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ -	\$ -	\$ -	-
Transfers out	-	-	(132,353)	(132,353)
Total other financing sources and uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (132,353)</u>	<u>\$ (132,353)</u>
Net change in fund balances	\$ -	\$ 249,257	\$ 444,155	\$ 194,898
Fund balances - beginning	-	(249,257)	(71,438)	177,819
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 372,717</u>	<u>\$ 372,717</u>

Cafeteria Fund				Textbook Fund			
Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
Original	Final			Original	Final		
\$ -	\$ 25	\$ 31	\$ 6	\$ -	\$ -	\$ 77	\$ 77
-	91,678	145,413	53,735	-	-	1,640	1,640
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	8,000	7,691	(309)	-	-	-	-
-	541,212	513,174	(28,038)	-	-	-	-
<u>\$ -</u>	<u>\$ 640,915</u>	<u>\$ 666,309</u>	<u>\$ 25,394</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,717</u>	<u>\$ 1,717</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,797	\$ (33,797)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	640,915	649,159	(8,244)	-	-	-	-
<u>\$ -</u>	<u>\$ 640,915</u>	<u>\$ 649,159</u>	<u>\$ (8,244)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,797</u>	<u>\$ (33,797)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,150</u>	<u>\$ 17,150</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (32,080)</u>	<u>\$ (32,080)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 132,353	\$ 132,353
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 132,353</u>	<u>\$ 132,353</u>
\$ -	\$ -	\$ 17,150	\$ 17,150	\$ -	\$ -	\$ 100,273	\$ 100,273
-	-	(38,078)	(38,078)	-	-	27,616	27,616
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (20,928)</u>	<u>\$ (20,928)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 127,889</u>	<u>\$ 127,889</u>

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**Discretely Presented Component Unit**

**- Industrial Development Authority -**

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Statement of Net Assets  
 Discretely Presented Component Unit - Industrial Development Authority  
 June 30, 2007

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	<u>Industrial Development Authority</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ <u>13,028</u>
Total assets	\$ <u>13,028</u>
<b>LIABILITIES</b>	
Current liabilities:	
Due to primary government	\$ <u>339,486</u>
Total liabilities	\$ <u>339,486</u>
<b>NET ASSETS</b>	
Unrestricted	\$ <u>(326,458)</u>
Total net assets	\$ <u><u>(326,458)</u></u>

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Assets  
 Discretely Presented Component Unit - Industrial Development Authority  
 For the Year Ended June 30, 2007

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	<u>Industrial Development Authority</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	\$ 50
Other nonoperating income	860
Total nonoperating revenues (expenses)	<u>\$ 910</u>
Income before contributions and transfers	<u>\$ 910</u>
 Change in net assets	 \$ 910
 Total net assets - beginning	 (327,368)
Total net assets - ending	<u><u>\$ (326,458)</u></u>

The notes to the financial statements are an integral part of this statement.



Statement of Cash Flows  
Discretely Presented Component Unit - Industrial Development Authority  
For the Year Ended June 30, 2007

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	<u>Industrial Development Authority</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends received	\$ 50
Net cash provided (used) by investing activities	<u>\$ 50</u>
Net increase (decrease) in cash and cash equivalents	\$ 50
Cash and cash equivalents - beginning	<u>12,978</u>
Cash and cash equivalents - ending	<u><u>\$ 13,028</u></u>

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## Supporting Schedules

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Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2007

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>General Fund:</b>				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 4,750,212	\$ 4,868,413	\$ 4,669,285	\$ (199,128)
Real and personal public service corporation taxes	81,700	81,700	57,079	(24,621)
Personal property taxes	1,197,112	1,197,112	1,141,735	(55,377)
Machinery and tools taxes	15,000	15,000	14,073	(927)
Penalties and interest	110,000	110,000	113,913	3,913
Total general property taxes	<u>\$ 6,154,024</u>	<u>\$ 6,272,225</u>	<u>\$ 5,996,085</u>	<u>\$ (276,140)</u>
Other local taxes:				
Local sales and use taxes	\$ 1,529,313	\$ 1,529,313	\$ 1,693,082	\$ 163,769
Consumers' utility taxes	880,000	880,000	649,309	(230,691)
Cellular utility taxes	138,000	138,000	93,277	(44,723)
Right-of-way use fee	34,000	34,000	31,137	(2,863)
Electric consumption taxes	35,000	35,000	30,154	(4,846)
E-911 telephone taxes	180,000	180,000	77,444	(102,556)
Communication taxes	-	-	273,343	273,343
Business license taxes	770,000	820,000	834,529	14,529
Franchise license taxes	71,000	71,000	75,120	4,120
Motor vehicle license taxes	151,000	151,000	155,555	4,555
Bank stock taxes	65,000	65,000	52,328	(12,672)
Taxes on recordation and wills	62,000	62,000	81,484	19,484
Cigarette taxes	263,000	263,000	254,217	(8,783)
Lodging taxes	204,000	204,000	208,315	4,315
Restaurant food taxes	1,010,000	1,090,000	1,088,750	(1,250)
Total other local taxes	<u>\$ 5,392,313</u>	<u>\$ 5,522,313</u>	<u>\$ 5,598,044</u>	<u>\$ 75,731</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 2,500	\$ 2,500	\$ 2,280	\$ (220)
Building and related permits	93,900	93,900	53,974	(39,926)
Zoning, subdivision fees and rezoning permits	8,320	8,320	9,681	1,361
Transfer fees	20,000	20,000	17,974	(2,026)
Permits and other licenses	740	740	1,049	309
Total permits, privilege fees, and regulatory licenses	<u>\$ 125,460</u>	<u>\$ 125,460</u>	<u>\$ 84,958</u>	<u>\$ (40,502)</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 62,900	\$ 62,900	\$ 67,106	\$ 4,206
Total fines and forfeitures	<u>\$ 62,900</u>	<u>\$ 62,900</u>	<u>\$ 67,106</u>	<u>\$ 4,206</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 5,000	\$ 31,857	\$ 47,192	\$ 15,335
Revenue from use of property	250,108	250,108	236,106	(14,002)
Total revenue from use of money and property	<u>\$ 255,108</u>	<u>\$ 281,965</u>	<u>\$ 283,298</u>	<u>\$ 1,333</u>
Charges for services:				
Law library fees	\$ 4,200	\$ 4,200	\$ 4,781	\$ 581
Other court fees	4,050	4,050	4,050	-
Police services	-	2,259	2,259	-

Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2007

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>General Fund: (Continued)</b>				
Charges for services: (Continued)				
Fire and emergency services	393,268	455,268	405,554	(49,714)
Animal boarding and adoption fees	350	350	10	(340)
Janitorial services	16,353	16,353	10,461	(5,892)
Armory operations and maintenance	14,200	14,200	18,658	4,458
Waste collection and disposal	845,352	899,752	870,203	(29,549)
Demolition and debris removal	1,000	1,000	7,261	6,261
Administration - water and sewer	308,700	308,700	308,700	-
Administration - airport	1,942	1,942	1,850	(92)
Administration - electric	284,917	284,917	284,917	-
Recreation fees and admissions	24,000	27,139	19,185	(7,954)
Other charges for services	-	-	7,406	7,406
Total charges for services	\$ 1,898,332	\$ 2,020,130	\$ 1,945,295	\$ (74,835)
Miscellaneous revenue:				
Annexation payments - County of Isle of Wight	\$ 1,100,000	\$ 1,100,000	\$ 1,107,450	\$ 7,450
Revenue sharing - Southampton County	78,000	78,000	68,430	(9,570)
Payment in lieu of taxes - from enterprise activities	103,742	103,742	96,717	(7,025)
Sale of supplies and publications	1,200	1,200	1,428	228
Sale of surplus	5,000	5,000	-	(5,000)
Sale of real estate	-	-	10,000	10,000
Sale of cemetery lots	25,000	25,000	22,300	(2,700)
Sale of garbage containers	1,000	1,000	338	(662)
Auction proceeds	-	-	4,091	4,091
Donations	-	620	720	100
Miscellaneous other	-	5,345	10,776	5,431
Total miscellaneous revenue	\$ 1,313,942	\$ 1,319,907	\$ 1,322,250	\$ 2,343
Recovered costs:				
Insurance recovery - workers' compensation	\$ 10,000	\$ 10,000	\$ 30,708	\$ 20,708
Insurance recovery - liability	10,000	11,701	4,797	(6,904)
Personal property seizure	-	-	4,917	4,917
Expenditure refunds	-	4,500	4,500	-
Other recovered costs	10,000	10,000	15,487	5,487
Total recovered costs	\$ 30,000	\$ 36,201	\$ 60,409	\$ 24,208
Total revenue from local sources	\$ 15,232,079	\$ 15,641,101	\$ 15,357,445	\$ (283,656)
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	\$ 4,893	\$ 4,893	\$ 4,893	-
Wine taxes	5,129	5,129	5,129	-
Railroad rolling stock tax	6,000	6,000	4,957	(1,043)
Motor vehicle rental tax	35,000	35,000	32,878	(2,122)
State recordation tax	18,734	18,734	19,320	586
Personal property tax relief funds	1,065,320	1,065,320	1,065,320	-
Total noncategorical aid	\$ 1,135,076	\$ 1,135,076	\$ 1,132,497	\$ (2,579)

Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2007

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>General Fund: (Continued)</b>				
Categorical aid:				
Shared expenses:				
Commissioner of revenue	\$ 70,000	\$ 70,000	\$ 77,698	\$ 7,698
Treasurer	63,000	63,000	70,673	7,673
Registrar/electoral board	43,000	43,000	45,641	2,641
Total shared expenses	<u>\$ 176,000</u>	<u>\$ 176,000</u>	<u>\$ 194,012</u>	<u>\$ 18,012</u>
Other categorical aid:				
HB 599 Law enforcement grant	\$ 478,748	\$ 478,748	\$ 478,748	-
Emergency services grant	17,000	17,000	-	(17,000)
Fire and rescue grant	-	54,000	-	(54,000)
Street and highway maintenance funds	1,270,868	1,270,868	1,268,739	(2,129)
Litter control grant	4,495	9,802	5,307	(4,495)
Arts grant	5,000	5,000	5,000	-
Wireless 911 grant	35,615	35,615	32,144	(3,471)
Two for life grant	-	-	5,940	5,940
State board of elections - voting machine grant	-	6,484	6,484	-
All hazards EOP grant	-	707	-	(707)
Fire programs funds	12,000	12,000	20,244	8,244
Total other categorical aid	<u>\$ 1,823,726</u>	<u>\$ 1,890,224</u>	<u>\$ 1,822,606</u>	<u>\$ (67,618)</u>
Total categorical aid	<u>\$ 1,999,726</u>	<u>\$ 2,066,224</u>	<u>\$ 2,016,618</u>	<u>\$ (49,606)</u>
Total revenue from the Commonwealth	<u>\$ 3,134,802</u>	<u>\$ 3,201,300</u>	<u>\$ 3,149,115</u>	<u>\$ (52,185)</u>
Revenue from the federal government:				
Categorical aid:				
Homeland Security - State domestic preparedness support grant	\$ -	\$ 401,047	\$ 401,047	-
Homeland Security - Emergency management performance grant	-	-	8,297	8,297
Local law enforcement block grant	-	8,143	8,143	-
Hazardous materials emergency preparedness grant	-	-	707	707
Bulletproof vest program	-	1,702	1,702	-
Total categorical aid	<u>\$ -</u>	<u>\$ 410,892</u>	<u>\$ 419,896</u>	<u>\$ 9,004</u>
Total revenue from the federal government	<u>\$ -</u>	<u>\$ 410,892</u>	<u>\$ 419,896</u>	<u>\$ 9,004</u>
Other financing sources:				
Proceeds from sale of property	\$ -	\$ 1,577,117	\$ 1,577,117	-
Transfer from electric fund	2,009,891	2,009,891	2,009,891	-
Prior year budget and surplus carryover	-	560,929	-	(560,929)
Total other financing sources	<u>\$ 2,009,891</u>	<u>\$ 4,147,937</u>	<u>\$ 3,587,008</u>	<u>\$ (560,929)</u>
Total General Fund	<u>\$ 20,376,772</u>	<u>\$ 23,401,230</u>	<u>\$ 22,513,464</u>	<u>\$ (887,766)</u>

Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2007

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Special Revenue Fund:</b>				
<b>Virginia Public Assistance Fund</b>				
Revenue from the Commonwealth:				
Categorical aid:				
Welfare administration and public assistance	\$ 379,476	\$ 366,732	\$ 371,132	\$ 4,400
Total categorical aid	<u>\$ 379,476</u>	<u>\$ 366,732</u>	<u>\$ 371,132</u>	<u>\$ 4,400</u>
Total revenue from the Commonwealth	<u>\$ 379,476</u>	<u>\$ 366,732</u>	<u>\$ 371,132</u>	<u>\$ 4,400</u>
Revenue from the federal government:				
Categorical aid:				
Welfare administration and public assistance	\$ 1,138,427	\$ 1,100,194	\$ 1,117,944	\$ 17,750
Total categorical aid	<u>\$ 1,138,427</u>	<u>\$ 1,100,194</u>	<u>\$ 1,117,944</u>	<u>\$ 17,750</u>
Total revenue from the federal government	<u>\$ 1,138,427</u>	<u>\$ 1,100,194</u>	<u>\$ 1,117,944</u>	<u>\$ 17,750</u>
Other financing sources:				
Transfer from electric fund	\$ 418,985	\$ 418,985	\$ 418,985	\$ -
Prior year budget and surplus carryover	-	61,491	-	(61,491)
Total other financing sources	<u>\$ 418,985</u>	<u>\$ 480,476</u>	<u>\$ 418,985</u>	<u>\$ (61,491)</u>
Total Social Services Fund	<u>\$ 1,936,888</u>	<u>\$ 1,947,402</u>	<u>\$ 1,908,061</u>	<u>\$ (39,341)</u>



Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2007

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>General Fund:</b>				
General government administration:				
Legislative:				
City council	\$ 293,522	\$ 340,489	\$ 306,605	\$ 33,884
General and financial administration:				
City manager	\$ 230,815	\$ 230,815	\$ 225,922	\$ 4,893
City attorney	128,432	128,432	83,437	44,995
Management services and human resources	223,579	223,579	177,912	45,667
Commissioner of revenue	230,826	230,826	226,474	4,352
Reassessment	35,866	45,156	29,853	15,303
Treasurer	71,610	71,610	71,906	(296)
Accounting	263,893	263,893	244,205	19,688
Collections	202,884	202,884	185,524	17,360
Purchasing	71,610	71,610	67,658	3,952
Utility billings and collections	215,849	215,849	205,659	10,190
Insurance	100,000	100,000	93,097	6,903
Information technology	151,900	151,900	135,661	16,239
Total general and financial administration	\$ 1,927,264	\$ 1,936,554	\$ 1,747,308	\$ 189,246
Board of elections:				
Electoral board and officials	\$ 111,025	\$ 117,509	\$ 112,169	\$ 5,340
Total board of elections	\$ 111,025	\$ 117,509	\$ 112,169	\$ 5,340
Total general government administration	\$ 2,331,811	\$ 2,394,552	\$ 2,166,082	\$ 228,470
Judicial administration:				
Courts:				
Circuit court - joint operations	\$ 10,867	\$ 10,867	\$ 10,867	\$ -
General district court	90,922	136,397	130,316	6,081
Special magistrates	150	150	-	150
Clerk of the circuit court	34,174	34,174	34,174	-
Juvenile and domestic relations court	50	50	50	-
Sheriff - courts	55,054	55,054	55,056	(2)
Total courts	\$ 191,217	\$ 236,692	\$ 230,463	\$ 6,229
Commonwealth's attorney:				
Commonwealth's attorney	\$ 46,855	\$ 46,855	\$ 46,855	\$ -
Total commonwealth's attorney	\$ 46,855	\$ 46,855	\$ 46,855	\$ -
Total judicial administration	\$ 238,072	\$ 283,547	\$ 277,318	\$ 6,229
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 2,370,925	\$ 2,489,265	\$ 2,588,342	\$ (99,077)
Police mini station	300	300	179	121
Total law enforcement and traffic control	\$ 2,371,225	\$ 2,489,565	\$ 2,588,521	\$ (98,956)

Schedule of Expenditures - Budget and Actual  
 Governmental Funds  
 For the Year Ended June 30, 2007

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>General Fund: (Continued)</b>				
Emergency services:				
E-911 operations	\$ 528,730	\$ 528,730	\$ 503,533	\$ 25,197
Emergency management services	1,033,721	1,460,712	1,405,499	55,213
Total fire and rescue services	<u>\$ 1,562,451</u>	<u>\$ 1,989,442</u>	<u>\$ 1,909,032</u>	<u>\$ 80,410</u>
Correction and detention:				
Detention - Western Tidewater Regional Jail	\$ 100,000	\$ 100,000	\$ -	\$ 100,000
Total correction and detention	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>
Inspections:				
Building	\$ 441,271	\$ 473,418	\$ 407,099	\$ 66,319
Total inspections	<u>\$ 441,271</u>	<u>\$ 473,418</u>	<u>\$ 407,099</u>	<u>\$ 66,319</u>
Other protection:				
Animal control	\$ 74,721	\$ 74,741	\$ 92,014	\$ (17,273)
Civil defense	63,687	63,687	62,065	1,622
Safety and health	3,500	3,500	867	2,633
Total other protection	<u>\$ 141,908</u>	<u>\$ 141,928</u>	<u>\$ 154,946</u>	<u>\$ (13,018)</u>
Total public safety	<u>\$ 4,616,855</u>	<u>\$ 5,194,353</u>	<u>\$ 5,059,598</u>	<u>\$ 134,755</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Streets and highways	\$ 2,187,166	\$ 2,366,140	\$ 1,657,663	\$ 708,477
Snow removal	23,000	23,000	3,156	19,844
Garage	238,097	238,097	223,120	14,977
Total maintenance of highways, streets, bridges & sidewalks	<u>\$ 2,448,263</u>	<u>\$ 2,627,237</u>	<u>\$ 1,883,939</u>	<u>\$ 743,298</u>
Sanitation and waste removal:				
Refuse collection	\$ 927,616	\$ 982,016	\$ 969,460	\$ 12,556
Total sanitation and waste removal	<u>\$ 927,616</u>	<u>\$ 982,016</u>	<u>\$ 969,460</u>	<u>\$ 12,556</u>
Maintenance of general buildings and grounds:				
Maintenance of general buildings and grounds	\$ 627,419	\$ 752,419	\$ 865,336	\$ (112,917)
Maintenance of armory	57,982	57,982	73,067	(15,085)
Maintenance of city hall	166,508	166,508	153,676	12,832
Maintenance of social services	69,540	69,540	66,664	2,876
Maintenance of health department	26,029	26,029	17,935	8,094
Total maintenance of general buildings and grounds	<u>\$ 947,478</u>	<u>\$ 1,072,478</u>	<u>\$ 1,176,678</u>	<u>\$ (104,200)</u>
Total public works	<u>\$ 4,323,357</u>	<u>\$ 4,681,731</u>	<u>\$ 4,030,077</u>	<u>\$ 651,654</u>
Health and welfare:				
Health:				
Local health department	\$ 147,875	\$ 147,875	\$ 147,750	\$ 125
Mosquito control	60,000	60,000	14,972	45,028
Mental health	64,956	64,956	64,956	-
Total health	<u>\$ 272,831</u>	<u>\$ 272,831</u>	<u>\$ 227,678</u>	<u>\$ 45,153</u>
Total health and welfare	<u>\$ 272,831</u>	<u>\$ 272,831</u>	<u>\$ 227,678</u>	<u>\$ 45,153</u>

Schedule of Expenditures - Budget and Actual  
 Governmental Funds  
 For the Year Ended June 30, 2007

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>General Fund: (Continued)</b>				
Education:				
Contribution to local school board	\$ 4,472,469	\$ 4,472,469	\$ 4,472,469	\$ -
Total education	<u>\$ 4,472,469</u>	<u>\$ 4,472,469</u>	<u>\$ 4,472,469</u>	<u>\$ -</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Programs and operations	\$ 448,497	\$ 452,136	\$ 432,200	\$ 19,936
Senior citizen programs	124,541	124,541	128,352	(3,811)
Tax relief for the elderly	13,000	13,000	-	13,000
Cemeteries	60,500	77,820	75,910	1,910
Total parks and recreation	<u>\$ 646,538</u>	<u>\$ 667,497</u>	<u>\$ 636,462</u>	<u>\$ 31,035</u>
Library:				
Library administration	\$ 291,134	\$ 291,134	\$ 306,448	\$ (15,314)
Total library	<u>\$ 291,134</u>	<u>\$ 291,134</u>	<u>\$ 306,448</u>	<u>\$ (15,314)</u>
Total parks, recreation, and cultural	<u>\$ 937,672</u>	<u>\$ 958,631</u>	<u>\$ 942,910</u>	<u>\$ 15,721</u>
Community development:				
Planning and community development:				
Planning	\$ 103,993	\$ 103,993	\$ 80,371	\$ 23,622
Zoning appeals	700	700	1,082	(382)
Beautification commission	6,545	44,992	637	44,355
Downtown development	91,047	94,909	94,909	-
Payments to Southampton County	577,500	594,929	594,929	-
Total planning and community development	<u>\$ 779,785</u>	<u>\$ 839,523</u>	<u>\$ 771,928</u>	<u>\$ 67,595</u>
Total community development	<u>\$ 779,785</u>	<u>\$ 839,523</u>	<u>\$ 771,928</u>	<u>\$ 67,595</u>
Nondepartmental:				
Retiree medical, workers compensation and unemployment				
Bank service charges	\$ 2,500	\$ 2,500	\$ 15,707	\$ (13,207)
Other nondepartmental	2,606	3,795	3,795	-
Total nondepartmental	<u>\$ 5,106</u>	<u>\$ 6,295</u>	<u>\$ 19,502</u>	<u>\$ (13,207)</u>

Schedule of Expenditures - Budget and Actual  
 Governmental Funds  
 For the Year Ended June 30, 2007

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>General Fund: (Continued)</b>				
Other financing uses:				
Transfers:				
Transfer to social services fund	\$ 418,985	\$ 418,985	\$ 418,985	\$ -
Transfer to comprehensive services act fund	51,940	126,168	126,168	-
Transfer to school capital fund	115,000	180,000	50,000	130,000
Transfer to school debt fund	671,667	800,199	725,245	74,954
Transfer to airport fund	82,984	82,984	82,984	-
Transfer to economic development fund	244,749	244,749	244,749	-
Transfer to debt service fund	813,489	2,390,606	2,385,437	5,169
Transfer to flood fund	-	53,607	53,607	-
Total other financing uses	<u>\$ 2,398,814</u>	<u>\$ 4,297,298</u>	<u>\$ 4,087,175</u>	<u>\$ 210,123</u>
Total General Fund	<u>\$ 17,977,958</u>	<u>\$ 19,103,932</u>	<u>\$ 17,967,562</u>	<u>\$ 1,136,370</u>
<b>Special Revenue Funds:</b>				
<b>Virginia Public Assistance Fund</b>				
Health and welfare:				
Welfare and social services:				
Welfare administration	\$ 1,452,666	\$ 1,460,552	\$ 1,303,298	\$ 157,254
Public assistance	484,222	486,850	429,678	57,172
Total welfare and social services	<u>\$ 1,936,888</u>	<u>\$ 1,947,402</u>	<u>\$ 1,732,976</u>	<u>\$ 214,426</u>
Total health and welfare	<u>\$ 1,936,888</u>	<u>\$ 1,947,402</u>	<u>\$ 1,732,976</u>	<u>\$ 214,426</u>
Total Social Services Fund	<u>\$ 1,936,888</u>	<u>\$ 1,947,402</u>	<u>\$ 1,732,976</u>	<u>\$ 214,426</u>

## Statistical Tables

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City of Franklin, Virginia

Table 1

Government-Wide Revenues  
Year Ended June 30,

Fiscal Year	Program Revenues			General Revenues					Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Revenue Sharing from Counties	Not Restricted to Specific Programs	Unrestricted Investment Earnings	Miscellaneous	
2007	\$ 17,601,728	\$ 4,096,205	\$ 1,607,455	\$ 11,735,772	\$ 1,175,879	\$ 1,132,497 *	\$ 132,207	\$ 1,556,708	\$ 39,038,451
2006	18,767,600	3,698,397	93,952	10,627,041	1,136,199	1,132,497 *	38,191	1,431,952	36,925,829
2005	16,228,102	3,645,508	2,168,480	10,982,904	1,103,685	-	9,025	374,154	34,511,858
2004	15,647,334	7,482,463	1,266,990	10,477,483	1,094,768	-	64,895	287,280	36,321,213
2003	13,778,672	3,751,675	2,245,681	9,940,796	1,273,965	-	61,152	203,068	31,255,009

\* PPTRA amounts in Grants and Contributions not restricted appeared in Taxes column before 2006

City of Franklin, Virginia

Government-Wide Expenditures by Function  
Year Ended June 30,

Fiscal Year	General Government	Judicial	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation and Cultural	Community Development	Non-Departmental	Interest on Long-term Debt	Water and Sewer	Electric	Airport	Total Expenditures
2007	\$ 2,418,619	\$ 276,708	\$ 5,199,732	\$ 4,049,898	\$ 2,328,871	\$ 5,877,702	\$ 1,035,540	\$ 1,658,873	\$ -	\$ 879,419	\$ 2,931,072	\$ 10,833,758	\$ 628,378	\$ 38,118,570
2006	3,579,360	220,786	4,581,392	3,273,363	2,476,948	4,358,068	908,320	1,154,255	580,617	717,482	2,895,536	10,704,954	571,601	36,022,682
2005	2,154,840	227,962	4,385,901	4,452,836	2,138,779	4,155,196	993,109	213,146	577,465	734,457	2,794,462	8,887,833	614,946	32,330,932
2004	2,136,656	107,674	4,172,103	3,711,353	2,148,536	7,271,975	869,713	4,464,002	546,196	751,139	2,714,447	8,645,465	620,913	38,160,172
2003	1,975,927	267,988	3,940,130	3,996,765	1,807,915	4,264,145	871,299	3,477,458	536,786	613,353	2,603,237	7,926,959	570,952	32,852,914



General Governmental Revenues by Source  
Year Ended June 30,

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
General property taxes	\$ 5,996,085	\$ 6,359,770	\$ 5,782,264	\$ 5,523,583	\$ 5,509,757	\$ 5,306,578	\$ 5,191,290	\$ 4,865,250	\$ 4,928,999	\$ 4,781,708
Other local taxes	5,598,044	5,245,322	5,037,186	4,801,060	4,366,505	4,250,437	3,804,429	3,775,567	3,846,160	3,442,774
Permits, fees and licenses	84,958	111,310	69,920	72,184	43,889	39,303	50,365	53,836	98,658	51,799
Fines and forfeitures	67,106	42,865	51,248	62,331	49,407	57,330	79,354	59,381	75,383	83,683
Use of money and property	463,110	612,208	456,174	385,383	249,722	376,718	362,681	199,522	137,237	214,618
Charges for services	2,109,470	1,688,388	1,773,283	1,572,875	1,469,736	1,393,338	1,205,154	1,098,471	1,154,149	1,277,089
Miscellaneous and donations	2,375,228	1,856,200	1,481,570	1,368,093	1,582,999	1,981,749	1,725,897	1,761,408	2,078,866	1,355,673
Recovered costs	832,764	162,534	130,621	154,223	92,106	156,802	174,407	579,373	133,123	60,442
Intergovernmental	17,823,513	18,955,586	20,107,570	21,443,712	19,708,670	13,732,213	16,474,100	13,850,616	10,638,182	9,717,046
<b>Total</b>	<b>\$ 35,350,278</b>	<b>\$ 35,034,183</b>	<b>\$ 34,889,836</b>	<b>\$ 35,383,444</b>	<b>\$ 33,072,791</b>	<b>\$ 27,294,468</b>	<b>\$ 29,067,677</b>	<b>\$ 26,243,424</b>	<b>\$ 23,090,757</b>	<b>\$ 20,984,832</b>

NOTE: Includes General, Special Revenue, Debt Service, Capital Project, School Operating and School Food Service. School Funds are reported in the component unit section of the financial statements, but are included here since they are part of the general government function.

General Governmental Expenditures by Function  
Last Ten Fiscal Years Ended June 30,

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
General government administration	\$ 2,170,465	\$ 2,033,571	\$ 1,916,668	\$ 1,898,128	\$ 1,921,302	\$ 1,859,894	\$ 1,905,069	\$ 1,871,245	\$ 1,626,325	\$ 1,405,959
Judicial administration	277,318	220,786	227,962	166,707	267,988	132,119	125,702	65,900	-	65,505
Public safety	5,179,909	4,352,306	4,363,831	3,986,257	4,242,378	3,454,288	3,364,673	3,374,754	3,081,393	2,809,891
Public works	4,729,833	4,131,807	4,031,172	4,048,957	4,159,512	4,060,813	3,404,675	3,340,481	3,869,386	3,437,317
Health and welfare	2,395,651	2,411,904	2,068,157	2,097,930	1,794,405	1,815,008	1,543,135	1,542,786	1,500,570	1,295,600
Education	15,648,683	14,264,376	15,767,293	12,777,477	13,906,854	13,067,817	12,322,151	14,287,541	11,756,385	11,088,959
Parks, recreation and cultural	978,109	989,414	910,516	839,088	831,648	724,478	766,057	803,071	669,776	660,786
Community development	1,668,299	866,223	953,592	4,464,002	2,272,636	1,613,500	2,626,464	6,695,831	886,427	287,085
Nondepartmental	20,869	718,739	578,963	551,561	535,925	522,669	531,476	451,868	637,915	723,687
Capital Projects	2,413,468	1,332,763	1,569,281	1,453,738	4,055,653	5,265,185	786,255	88,018	78,021	194,000
Debt service:										
Principal retirement	2,557,013	2,575,710	1,008,779	715,570	3,446,839	739,387	721,464	633,245	286,921	450,782
Interest and fiscal charges	679,916	761,876	737,999	715,178	613,353	374,388	320,867	328,114	158,689	183,686
<b>Totals</b>	<b>\$ 38,719,533</b>	<b>\$ 34,659,475</b>	<b>\$ 34,134,213</b>	<b>\$ 33,714,593</b>	<b>\$ 38,048,493</b>	<b>\$ 33,629,546</b>	<b>\$ 28,417,988</b>	<b>\$ 33,482,854</b>	<b>\$ 24,627,789</b>	<b>\$ 22,603,257</b>

NOTE: Includes General, Special Revenue, Debt Service, Capital Project, School Operating and School Food Service. School Funds are reported in the component unit section of the financial statements, but are included here since they are part of the general government function.

City of Franklin, Virginia

Table 5

Property Tax Levies and Collections  
Last Ten Fiscal Years Ended June 30,

Year	Total		Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)(2)	Total Tax Collections	Percent of		
	Tax Levy (1)	Tax Levy (1)					Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
2007	\$ 7,023,237	\$ 6,827,150		97.21%	\$ 179,681	\$ 7,006,831	99.77%	\$ 649,891	9.25%
2006	6,229,526	5,913,050		94.92%	279,881	6,192,931	99.41%	619,208	9.94%
2005	5,640,259	5,323,582		94.39%	290,026	5,613,608	99.53%	485,700	8.61%
2004	5,463,530	5,220,437		95.55%	286,425	5,506,862	100.79%	459,049	8.40%
2003	5,221,065	5,067,596		97.06%	329,579	5,397,175	103.37%	498,463	9.55%
2002	5,153,719	4,896,547		95.01%	230,318	5,126,865	99.48%	452,614	8.78%
2001	5,093,699	4,858,060		95.37%	250,038	5,108,098	100.00%	528,145	10.33%
2000	4,900,600	4,610,558		94.09%	265,457	4,876,015	99.50%	610,911	12.47%
1999	5,002,971	4,625,962		92.46%	184,033	4,809,995	96.14%	586,112	11.72%
1998	4,671,297	4,445,954		95.18%	209,451	4,655,405	99.66%	549,011	11.75%
1997	4,466,799	4,328,582		96.91%	221,078	4,549,660	101.86%	566,779	12.69%

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

NOTE: Includes Real Estate, Personal Property, Mobile Homes, Machinery and Tools and Public Service Corporation property.

Table 6

City of Franklin, Virginia

Assessed Value of Taxable Property  
Last Ten Fiscal Years Ended June 30,

Year	Public Service Corporations			Public Service Corporations			Total
	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Real Estate	Personal Property	
2007	\$ 567,081,965	\$ 62,652,410	\$ -	703,167	\$ 6,596,676	\$ 21,591	\$ 637,055,809
2006	418,087,841	59,659,923	-	738,901	8,611,442	39,123	487,137,230
2005	413,484,184	55,210,009	-	757,167	8,617,223	39,123	478,107,706
2004	371,050,871	52,890,760	-	1,134,874	9,097,960	57,587	434,232,052
2003	365,657,221	55,879,359	166,080	971,160	8,969,861	38,567	431,682,248
2002	339,435,343	53,684,686	259,368	764,613	11,150,501	12,254	405,306,765
2001	346,907,411	43,006,770	469,560	822,593	10,248,575	21,255	401,476,164
2000	336,027,995	47,915,578	-	598,937	10,202,502	69,851	394,814,863
1999	298,000,000	42,014,422	-	797,506	9,286,671	64,535	350,163,134
1998	297,441,044	41,573,378	-	797,506	9,286,671	64,535	349,163,134

Property Tax Rates - Last Ten Fiscal Years  
 Tax Rates Per Hundred Dollars of Assessed Value  
 Last Ten Fiscal Years Ended June 30,

Year	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Public Service Corporation		
					Real Estate (1)	Personal Property	
2007	\$ 0.85 / \$ 1.09	4.50	0.85	2.00	\$	0.85	4.50
2006	\$ 0.95 / \$ 1.19	4.50	0.95	2.00		0.95	4.50
2005	\$ 0.90 / \$ 1.14	4.50	0.90	2.00		0.90	4.50
2004	\$ 0.90 / \$ 1.14	4.50	0.90	2.00		0.90	4.50
2003	\$ 0.90 / \$ 1.14	4.50	0.90	2.00		0.90	4.50
2002	\$ 0.90 / \$ 1.14	4.50	0.90	2.00		0.90	4.50
2001	\$ 0.90 / \$ 1.14	4.50	0.90	2.00		0.90	4.50
2000	\$ 0.90 / \$ 1.14	4.50	-	2.00		0.90	4.50
1999	\$ 0.90 / \$ 1.14	4.50	-	2.00		0.90	4.50
1998	\$ 0.90 / \$ 1.14	4.50	-	2.00		0.90	4.50

- (1) Public Service Corporation property was taxed at basic real estate rates regardless of location.
- (2) Downtown district real estate tax rate was \$1.09 and remaining areas were taxed at \$0.85 for real estate.
- (3) Downtown district real estate tax rate was \$0.95 and remaining areas were taxed at \$ 0.90 for real estate. No Additional Downtown Tax
- (4) Downtown district real estate tax rate was \$1.14 and remaining areas were taxed at \$ 0.90 for real estate.
- (5) Downtown district real estate tax rate was \$1.19 and remaining areas were taxed at \$ 0.95 for real estate.

**Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt  
Last Ten Fiscal Years Ended June 30,**

Year	Assessed Value (in Thousands)	Gross Bonded Debt (1)	Less:		Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value
			Debt Service Monies	Debt Payable from Enterprise Revenues (2)		
2007	\$ 567,082	\$ 20,831,648	\$ 279,236	\$ 5,319,576	\$ 15,512,072	2.74%
2006	487,137	24,706,652	-	\$ 6,005,357	18,701,295	3.84%
2005	478,108	23,479,028	-	\$ 6,597,451	16,881,577	3.53%
2004	434,232	24,583,588	-	\$ 7,099,588	17,484,000	4.03%
2003	431,682	22,871,597	-	\$ 9,111,219	13,760,378	3.19%
2002	405,307	22,481,784	-	\$ 9,766,132	12,715,652	3.14%
2001	401,476	17,006,239	-	\$ 8,816,527	8,189,712	2.04%
2000	394,815	17,903,167	-	\$ 9,033,169	8,869,998	2.25%
1999	350,163	18,355,003	-	\$ 6,178,267	12,176,766	3.48%
1998	349,163	14,440,563	-	\$ 6,436,585	8,003,978	2.29%

Note: (1) Includes all long-term general obligation debt (excludes loss on net tax revenue obligation).  
 (2) Enterprise Debt includes Proprietary Fund Types and Component Unit - IDA.

City of Franklin, Virginia

Table 9

Ratio of Annual Debt Service Expenditures to Total General Governmental Expenditures Last Ten Fiscal Years

Fiscal Year	Expenditures - All Governmental Fund Types	Total Debt Service (1)	Percentage of Debt Service to Expenditures
2007	\$ 38,802,517	\$ 3,236,929	8.34%
2006	34,659,475	3,337,586	9.63%
2005	34,134,213	1,746,778	5.12%
2004	33,714,593	1,430,748	4.24%
2003	38,048,493	4,060,192	10.67%
2002	33,629,546	1,113,775	3.31%
2001	28,417,988	1,042,331	3.67%
2000	33,482,854	961,359	2.87%
1999	24,627,789	445,610	1.81%
1998	22,603,257	634,468	2.81%

(1) Includes debt service for all governmental fund types.

City of Franklin, Virginia

Table 10

Principal Taxpayers - Real Estate  
June 30, 2007

Taxpayer	Type of Business	2006 Assessed Valuation	Percent of Total Assessed Valuation of Real Estate
Franklin Hospital Corporation	Hospital	\$ 26,644,800	6.31%
James L. Rifkin Estate	Shopping Center	11,899,100	2.82%
The Village at Woods Edge	Retirement Home	9,806,988	2.32%
Southampton Shopping Center L. P.	Shopping Center	8,079,500	1.91%
Wood Properties LLP	Shopping Center	5,414,000	1.28%
Meadowridge Association	Apartments	4,984,000	1.18%
F.P. Associates	Apartments	4,226,100	1.00%
Dorchester Associates	Apartments	4,068,000	0.96%
FPA LLC	Apartments	3,866,100	0.92%
Adjacent Properties	Apartments	3,663,400	0.87%
		<u>\$ 82,651,988</u>	<u>13.83%</u>



City of Franklin, Virginia

Table 11

Principal Taxpayers - Personal Property  
June 30, 2007

Taxpayer	Type of Business	2006 Assessed Valuation	Percent of Total Assessed Personal Property
Franklin Hospital Corporation	Hospital	\$ 1,666,756	2.79%
Wal-Mart Stores Inc.	Retail - Variety	732,692	1.23%
Charter Communications, Inc.	Cable	435,630	0.73%
Albert G Dail Inc	Retail - Hardware	296,582	0.50%
General Electric Credit	Lease Furniture & Fixtures	215,207	0.36%
Food Lion, Inc. LLC	Retail - Grocery	206,452	0.35%
The Village at Woods Edge	Retirement Home	186,303	0.31%
S W Rawls, Inc.	Retail - Variety	155,134	0.26%
Belk Stores of Virginia	Retail - Clothing	152,373	0.26%
Eck CORPORATION	Retail - Drug	140,990	0.24%
		<u>\$ 4,188,119</u>	<u>7.02%</u>

Demographic Statistics  
Last Ten Fiscal Years

Fiscal Year	Population	Per Capita Income (3)	School Enrollment (4)	Unemployment Rate (5)
2007	8,800 (1)	Not Available	1,287	4.0%
2006	8,594 (1)	Not Available	1,307	5.2%
2005	8,594 (1)	\$25,750	1,360	5.2%
2004	8,450 (1)	\$25,024	1,384	5.0%
2003	8,324 (1)	\$24,478	1,434	4.9%
2002	8,181 (1)	\$23,767	1,404	4.9%
2001	8,263 (1)	\$23,046	1,423	4.4%
2000	8,346 (2)	\$22,111	1,484	3.2%
1999	8,139 (1)	\$21,857	1,649	4.3%
1998	8,474 (1)	\$20,291	1,738	3.8%

(1) Source: United States Census Estimates

(2) Source: 2000 United States Census

(3) Source: Weldon Cooper Center for Public Service combined amount  
for City of Franklin & Southampton County (US Commerce BEA)

(4) Source: Franklin School

(5) Source: Virginia Employment Commission

City of Franklin, Virginia

Table 13

Net Assets by Component  
June 30,

	2007	2006	2005
<b>Governmental activities</b>			
Invested in capital assets - net of related debt	\$ 15,949,140	\$ 13,717,240	\$ 14,767,515
Restricted	-	1,870,206	371,875
Unrestricted	3,188,314	3,226,660	2,907,806
<b>Total governmental activities</b>	<b>\$ 19,137,454</b>	<b>\$ 18,814,106</b>	<b>\$ 18,047,196</b>
<b>Business-type activities</b>			
Invested in capital assets - net of related debt	\$ 8,363,160	\$ 8,276,928	\$ 7,139,689
Unrestricted	2,511,591	2,855,121	3,386,128
<b>Total business-type activities</b>	<b>\$ 10,874,751</b>	<b>\$ 11,132,049</b>	<b>\$ 10,525,817</b>
<b>Primary government</b>			
Invested in capital assets - net of related debt	\$ 24,312,300	\$ 21,994,168	\$ 21,907,204
Restricted	-	1,870,206	371,875
Unrestricted	5,699,905	6,081,781	6,293,934
<b>Total primary government</b>	<b>\$ 30,012,205</b>	<b>\$ 29,946,155</b>	<b>\$ 28,573,013</b>

Change in Net Assets  
June 30,

	2007	2006	2005
<b>Expenses</b>			
Governmental activities:			
General government	\$ 2,418,619	\$ 3,579,360	\$ 2,154,840
Judicial	276,708	220,786	227,962
Public safety	5,199,732	4,581,392	4,385,901
Public works	4,049,898	3,273,363	4,452,836
Health and welfare	2,328,871	2,476,948	2,138,779
Education	5,877,702	4,358,068	4,155,196
Parks and recreation	1,035,540	908,320	993,109
Community development	1,658,873	1,154,255	213,146
Interest on long-term debt	879,419	761,876	738,001
Nondepartmental	-	580,617	577,465
<b>Total governmental activities</b>	<b>\$ 23,725,362</b>	<b>\$ 21,894,985</b>	<b>\$ 20,037,235</b>
Business-type activities:			
Water and sewer	\$ 2,931,072	\$ 2,895,536	\$ 2,794,462
Electric	10,833,758	10,704,954	8,887,833
Airport	628,378	571,601	614,946
<b>Total business-type activities</b>	<b>\$ 14,393,208</b>	<b>\$ 14,172,091</b>	<b>\$ 12,297,241</b>
<b>Total expenses</b>	<b>\$ 38,118,570</b>	<b>\$ 36,067,076</b>	<b>\$ 32,334,476</b>
<b>Program revenue</b>			
Governmental activities:			
Charges for services:			
General government	\$ 613,334	\$ 754,493	\$ 1,483,726
Judicial	8,831	51,540	59,776
Public safety	493,587	244,800	293,261
Public works	877,464	799,434	-
Health and welfare	-	-	15,525
Parks and recreation	19,185	54,750	53,795
Community development	-	48,868	-
Operating grants and contributions	4,096,205	3,698,397	3,645,508
Capital grants and contributions	1,207,312	93,952	2,168,480
<b>Total governmental activities</b>	<b>\$ 7,315,918</b>	<b>\$ 5,746,234</b>	<b>\$ 7,720,071</b>

Change in Net Assets  
June 30,

	2007	2006	2005
<b>Program revenue</b>			
Business-type activities:			
Charges for services:			
Water and sewer	\$ 3,330,432	\$ 3,868,775	\$ 2,979,414
Electric	12,007,869	12,109,011	10,958,120
Airport	251,026	835,929	384,485
Capital grants and contributions			
Airport	400,143	-	-
<b>Total business-type activities</b>	<u>\$ 15,989,470</u>	<u>\$ 16,813,715</u>	<u>\$ 14,322,019</u>
<b>Total program revenue</b>	<u>\$ 23,305,388</u>	<u>\$ 22,559,949</u>	<u>\$ 22,042,090</u>
<b>Governmental activities net expense</b>	<u>\$ (16,409,444)</u>	<u>\$ (16,148,751)</u>	<u>\$ (12,317,164)</u>
<b>Business-type activities net expense</b>	<u>1,596,262</u>	<u>2,641,624</u>	<u>2,024,778</u>
<b>Total primary government net expense</b>	<u>\$ (14,813,182)</u>	<u>\$ (13,507,127)</u>	<u>\$ (10,292,386)</u>
<b>General revenues and other changes in net assets</b>			
Governmental activities:			
Taxes:			
Property taxes	\$ 6,052,770	\$ 6,344,577	\$ 5,812,087
Other taxes	5,683,002	5,414,961	5,170,817
Revenue sharing from counties	1,175,879	1,136,199	1,103,685
Revenue from use of money and property	460,631	374,124	9,025
Grants & Gifts non-restricted	1,132,497	482,165	-
Miscellaneous	1,154,938	613,854	374,154
Transfers	1,926,907	2,100,872	2,113,017
<b>Total governmental activities</b>	<u>\$ 17,586,624</u>	<u>\$ 16,466,752</u>	<u>\$ 14,582,785</u>
Business-type activities:			
Revenue from use of money and property	\$ 73,346	\$ 65,481	\$ 2,087
Transfers	(1,926,907)	(2,100,872)	(2,113,017)
<b>Total business-type activities</b>	<u>\$ (1,853,561)</u>	<u>\$ (2,035,391)</u>	<u>\$ (2,110,930)</u>
<b>Total general revenues and other changes in net assets</b>	<u>\$ 15,733,063</u>	<u>\$ 14,431,361</u>	<u>\$ 12,471,855</u>
<b>Change in Net Assets</b>			
Governmental activities	\$ 1,177,180	\$ 318,001	\$ 2,265,621
Business-type activities	(257,299)	606,233	(86,152)
<b>Total primary government</b>	<u>\$ 919,881</u>	<u>\$ 924,234</u>	<u>\$ 2,179,469</u>

**Taxable Sales by Category  
Last Ten Fiscal Years \***

	2007	2006	2004	2003	2002	2001	2000	1999	1998
Merchant Wholesaler, Durable Goods	\$ 370,011	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Motor Vehicle & Parts Dealers	4,740,931	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Furniture & Home Furnishings	3,768,080	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Building materials, Farm & Garden Supplies	3,683,597	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Food and Beverage Stores	11,325,087	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gasoline Stations	2,841,936	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Clothing & Clothing Accessories Stores	2,057,085	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sporting Goods, Hobby, Book & Music Stores	229,560	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
General Merchandise Stores	53,083,978	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Miscellaneous Store Retailers	2,912,936	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nonstore Retailers	3,550,649	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Rental & Lease Services	960,998	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Food Services & Drinking Places	12,888,112	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Repair & Maintenance	2,388,335	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Personal & Laundry Services	922,640	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
All Other Businesses	5,437,841	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Miscellaneous & Unidentifiable	22,719,304	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>\$ 133,881,080</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

\* Source - Department of Taxation

Full-time Equivalent City Government Employees by Function/Program  
Last Ten Fiscal Years

Function/Program	Full-time Equivalent Employees as of June 30									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
<b>GENERAL FUND</b>										
General Government	26	26	24.5	24.5	26	25.5	25	25	22	22
Police & Communications	42	42	42	42	42	42	41.5	40.5	40	39.5
Animal Control	1	1	1	1	1	1	1	1	1	0.5
Fire & Rescue - EMS	15	12	12	12	10	10	10	9	8	8
Community Services	6	6	5	5	5	5	4.5	4	4	4
Public Works-Streets	23	23	23	24	25	25	26	26.5	26.5	26
Garage	4	4	4	4	4	4	4	4	4	4
Refuse collection	9	9	9	9	9	9	9	9	9	9
Public Works-Bldgs & Grounds	9	9	9	7.5	7	6	6	6	6	5
Cemetery & Mosquito Control	0	0	0	0.5	1	1	1	3	3	2.5
Park and Recreation	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7	6.5	6.5
Senior Program	2	2	2	2	2	2	2	2	2	2
Library	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Economic Development	0	0	0	1	1	0	0	0	0	0
Downtown Development	1	1	1	1	1	1	2	2	2	2
<b>Total General Fund</b>	<b>146</b>	<b>143</b>	<b>140.5</b>	<b>141.5</b>	<b>142</b>	<b>139.5</b>	<b>140</b>	<b>139.5</b>	<b>134.5</b>	<b>131.5</b>
<b>SOCIAL SERVICES FUND</b>										
ELECTRIC	19	19	19	20	20	20	20	19	19	19
WATER & SEWER	20	20	20	20	20	20	20	20	20	20
INCUBATOR	16	16	17	18	18	18	18	17	15	14
AIRPORT	1	1	0	0	0	0	0	0	0	0
<b>Total</b>	<b>204</b>	<b>201</b>	<b>198.5</b>	<b>201.5</b>	<b>201.5</b>	<b>199</b>	<b>199.5</b>	<b>197</b>	<b>190</b>	<b>185.5</b>

Operating Indicators by Function/Program  
Last Ten Fiscal Years

Function/Program	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Police										
Physical arrests	1,223	955	954	882	695	667	435	736	965	1,133
Parking violations	45	108	80	110	120	188	411	333	42	N/A
Traffic violations	1,370	1,955	1,069	1,022	1,220	1,001	1,485	1,508	1,358	2,738
Fire										
Emergency responses	2,304	2,170	2,072	1,886	1,827	1,718	-	-	-	-
Fires extinguished	98	108	95	89	89	86	-	-	-	-
Inspections	18	11	10	12	10	7	-	-	-	-
Refuse collection										
Refuse collected (tons per day)	13.41	13.40	-	-	-	-	-	-	-	-
Recyclables collected (tons per day)	1.22	1.31	N/A	N/A	N/A	-	-	-	-	-
Other public works										
Street resurfacing (tons)	215	2,750	-	-	-	-	-	-	-	-
Potholes repaired	250	200	-	-	-	-	-	-	-	-
Park and recreation										
Athletic field permits issued	56.00	N/A	-	-	-	-	-	-	-	-
Community center admissions	25,956	25,956	26,605	N/A	N/A	18,438	19,038	N/A	19,902	N/A
Library										
Volumes in collection	50,000	50,000	N/A	-	-	-	-	-	-	-
Total volumes borrowed	97,000	107,672	102,455	-	-	-	-	-	-	-
Water										
New connections	25	40	42	36	11	7	15	13	-	-
Water mains breaks	68	20	-	-	-	-	-	-	-	-
Average daily consumption (thousands of gallons)	1,072	1,169	-	-	-	-	-	-	-	-
Peak daily consumption (thousands of gallons)	1,610	1,700	-	-	-	-	-	-	-	-
Wastewater										
Average daily sewage treatment	903	980	-	-	-	-	-	-	-	-
Sewer connections - New	25	40	42	36	11	7	15	13	-	-
Transit										
Total route miles	None	None	None	None	None	None	None	None	None	None
Passengers	None	None	None	None	None	None	None	None	None	None



City of Franklin, Virginia

Capital Asset Statistics by Function/Program  
Last Ten Fiscal Years

Function/Program	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	27	27	27	27	27	27	27	26	26	25
Fire stations	2	2	2	2	2	2	2	2	2	2
Refuse collection										
Collection trucks	4	4	3	3	3	3	3	3	3	3
Other public works										
Street (miles)	35.50	35.50	-	-	-	-	-	-	-	-
Highways (miles)	15.09	15.09	-	-	-	-	-	-	-	-
Streetlights	953	953	-	-	-	-	-	-	-	-
Traffic signals	14	14	13	13	13	12	12	12	11	11
Park and recreation										
Acreage	28.61	28.61	28.61	28.61	28.61	28.61	28.61	28.61	28.61	28.61
Playgrounds	4	4	4	4	4	4	4	4	4	4
Baseball/softball diamonds	6	6	6	6	6	6	6	6	6	3
Soccer/football fields	2	2	2	2	2	2	2	2	2	2
Community centers	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	66.28	66.28	-	-	-	-	-	-	-	-
Fire hydrants	333	333	-	-	-	-	-	-	-	-
Storage capacity (thousands of gallons)	1,300	1,300	-	-	-	-	-	-	-	-
Wastewater										
Sanitary sewers (miles)	42.60	42.60	-	-	-	-	-	-	-	-
Storm sewers (miles)	210.00	210.00	-	-	-	-	-	-	-	-
Treatment capacity (thousands of gallon	2,000	2,000	-	-	-	-	-	-	-	-

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**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

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**To the Honorable Mayor and City Council  
City of Franklin  
Franklin, Virginia**

We have audited the financial statements of the governmental activities, the business-type activities the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Franklin, Virginia as of and for the year ended June 30, 2007, which collectively comprise the City of Franklin, Virginia's basic financial statements and have issued our report thereon dated November 28, 2007. We did not audit the financial statements of the School Cafeteria and School Textbook Funds. Those statements were audited by other auditors whose report has been furnished to us, and our opinion on the financial statements and this report on internal controls and compliance insofar as they relate to the School Cafeteria and School Textbook Funds are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Specifications for Audits of Counties, Cities, and Towns issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Franklin, Virginia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Franklin, Virginia's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Franklin, Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the City Council, federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

*Robinson, Farmer, Co. Associates*

Charlottesville, Virginia  
November 28, 2007

# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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## Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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To the Honorable Mayor and Members of City Council  
City of Franklin  
City of Franklin, Virginia

### Compliance

We have audited the compliance of the City of Franklin, Virginia with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City of Franklin, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Franklin, Virginia's management. Our responsibility is to express an opinion on the City of Franklin, Virginia's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Franklin, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Franklin, Virginia's compliance with those requirements.

In our opinion, the City of Franklin, Virginia complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

### Internal Control Over Compliance

The management of the City of Franklin, Virginia is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Franklin, Virginia's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Robinson, Farmer, Co. Associates*  
Charlottesville, Virginia  
November 28, 2007

CITY OF FRANKLIN, VIRGINIA

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2007

Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)	Federal Catalog Number	Expenditures
Department of Health and Human Services:		
Pass Through Payments:		
Department of Education:		
Medicaid program for special education	93.000	157,610
Department of Social Services:		
Promoting safe and stable families	93.556	\$ 16,376
Temporary assist to needy families (TANF)	93.558	217,262
Refugee and entrant assistance - state administered programs	93.566	314
Low income home energy assistance	93.568	14,260
Child care and development block grant	93.575	75,107
Child care mandatory and matching funds	93.596	78,970
Child welfare services - state grants	93.645	30
Chafee education and training vouchers program	93.599	128
Foster care - Title IV-E	93.658	154,945
Adoption assistance	93.659	2,759
Social services block grant	93.667	121,330
Chafee foster care independence program	93.674	1,300
State children's insurance program	93.767	376
Medical assistance program	93.778	204,526
Total Department Health & Human Services-pass through		\$ 1,045,293
Total Department Health and Human Services		\$ 1,045,293
Department of Agriculture:		
Pass Through Payments:		
Department of Agriculture:		
Food distribution - schools: school lunch program	10.555	\$ 47,233
Food distribution - schools: summer food service program	10.550	1,345
Department of Education:		
National school breakfast program	10.553	89,903
National school lunch program	10.555	313,298
Summer food service program	10.559	109,973
Department of Social Services:		
State Admin Matching Grants for Food Stamp Program	10.561	230,261
Total Department of Agriculture - pass-through payments		\$ 792,013
Total Department of Agriculture		\$ 792,013
Department of Justice:		
Direct payments:		
Bulletproof vest partnership program	16.607	1,702
Pass Through Payments:		
Department of Criminal Justice Service:		
Edward Byrne memorial justice assistance grant program	16.738	\$ 8,143
Total Department of Justice - pass-through		\$ 8,143
Total Department of Justice		\$ 9,845

CITY OF FRANKLIN, VIRGINIA

Schedule of Expenditures of Federal Awards (Continued)  
For the Year Ended June 30, 2007

Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)	Federal Catalog Number	Expenditures
Department of Housing and Community Development:		
Pass Through Payments:		
Department of Housing and Community Development:		
Community development block grant	14.228	\$ <u>148,589</u>
Department of Transportation:		
Direct Payments:		
Airport improvement program	20.106	\$ 325,709
Pass Through Payments:		
Department of Motor Vehicles:		
Hazardous materials emergency preparedness	20.703	<u>707</u>
Total Department of Transportation		\$ <u>326,416</u>
Department of Homeland Security:		
Direct Payments:		
State homeland security grant	97.004	278,019
Pass Through Payments:		
Department of Emergency Management:		
State homeland security grant	97.004	\$ 134,655
Emergency management performance grant	97.042	<u>8,297</u>
Total Department of Homeland Security		\$ <u>420,971</u>
Department of The Interior:		
Direct Payments:		
Sport fish restoration	15.605	\$ <u>664,175</u>
Department of Education:		
Pass Through Payments:		
Department of Education:		
Title I: Grants to local education agencies	84.010	\$ 537,416
Title VI-B: Special education	84.027	342,075
Vocational Education: Basic grants to states	84.048	41,055
Title VI-B: Special education preschool grant	84.173	9,602
Safe and drug free schools and communities state grant	84.186	20,075
Rural education	84.358	40,494
Reading first state grants	84.357	205,041
Title II, part D: Education technology state grants	84.318	5,089
Title II, part A: Improving teacher quality	84.367	127,810
Twenty first century community learning center	84.287	181,849
Title VI: State grants for innovative programs	84.298	<u>3,524</u>
Total Department of Education		\$ <u>1,514,030</u>
Total Federal Assistance		\$ <u><u>4,921,332</u></u>



CITY OF FRANKLIN, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2007

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Note 1 - General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federally assisted programs of the City of Franklin, Virginia. The City's reporting entity is defined in Note 1 to the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

Note 2 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements.

Note 3 - Relationship to Financial Statements

Federal expenditures, revenues and capital contributions are reported in the City's basic financial statements as follows:

Intergovernmental federal revenues per the basic financial statements:

Primary government:

General fund	\$ 419,896
Special revenue funds:	
Virginia public assistance fund	1,117,944
Cobbtown grant fund	148,589
Capital projects funds:	
City capital projects fund	664,175
Enterprise funds:	
Airport fund	337,336
Total primary government	<u>\$ 2,687,940</u>

Component unit - City of Franklin Public Schools

School operating fund	\$ 1,671,640
School cafeteria fund	513,174
Total component unit public schools	<u>\$ 2,184,814</u>

Total federal expenditures per basic financial statements \$ 4,872,754

Non-cash expenditures - value of donated commodities \$ 48,578

Total federal expenditures per the Schedule of Expenditures of Federal Awards \$ 4,921,332

CITY OF FRANKLIN, VIRGINIA

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007

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**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

    Material weaknesses identified? No

    Significant deficiencies identified not considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

**Federal Awards**

Internal control over major programs:

    Material weaknesses identified? No

    Significant deficiencies identified not considered to be material weaknesses? No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)? No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
15.605	Sport fish restoration
97.004	State homeland security grant
20.106	Airport improvement program
84.367	Title II, part A: Improving teacher quality
	Special Education Cluster:
84.027	Title VI-B: Special education
84.173	Title VI-B: Special education preschool grant

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee? Yes

**Section II - Financial Statement Findings**

None

**Section III - Federal Award Findings and Questioned Costs**

None